

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Portage	County Kalamazoo
Audit Date 6/30/05	Opinion Date 10/10/05	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

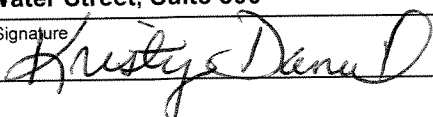
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | |
|------------------------------|--|---|
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) BDO Seidman, LLP			
Street Address 211 E. Water Street, Suite 300	City Kalamazoo	State MI	ZIP 49007
Accountant Signature 		Date 11-22-05	



Comprehensive Annual Financial Report

of the City of Portage, Michigan

For Fiscal Year Ending June 30, 2005

City of Portage, Michigan
Comprehensive Annual Financial Report
For the Fiscal Year Ended
June 30, 2005

Prepared by:

Finance Department

CITY OF PORTAGE, MICHIGAN
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2005

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December 6, 2005

To the Honorable Mayor, members of the City Council, and the Citizens of the City of Portage:

The comprehensive annual financial report of the City of Portage for the fiscal year ended June 30, 2005 has been completed. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the city. To the best of our knowledge and belief the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and component units of the city. All disclosures necessary to enable the reader to gain an understanding of the financial activities of the city have been included.

The comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the city organizational chart and a list of principal officials. The financial section includes the management's discussion and analysis, the financial statements and the combining and individual fund financial statements and schedules, as well as the auditors' report on the financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

This report includes all funds and account groups of the city. The city provides a full range of municipal services. These services include police and fire protection; water and wastewater services; the construction and maintenance of highways, streets, and other infrastructure; recreation activities and cultural events. In addition to the general activities of the city, the Building Authority, the Downtown Development Authority, and the Local Finance Development Authority are blended into the reporting entity. This report also presents the Economic Development Corporation as a discrete component unit.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment the MD&A and should be read in conjunction with it. The City of Portage's MD&A can be found immediately following the report of the independent auditors.

LOCATION AND CHARACTER

The City of Portage, which is situated in the southwest part of the State of Michigan, and located halfway between Chicago and Detroit, covers an area of 35.2125 square miles. Almost 31 percent of the area within the city is used for residential purposes, with most of this developed property devoted to single family dwellings. Based upon the volume of building permits issued, the city has the fastest growing residential sector in Kalamazoo County, Michigan.

ECONOMIC CONDITION AND OUTLOOK

The City of Portage is the unit of government in Kalamazoo County with the largest Assessed Value (regular tax roll). The state equalized value of real and personal property including tax abatements has increased from \$348,055,600 in 1980, to \$799,757,900 in 1990, to \$2,076,202,500 for the fiscal year ended June 30, 2005. The taxable value for the year beginning July 1, 2005 increased approximately 5 percent over the prior year. The City of Portage unemployment rate for September 2005 was 3.6 percent, while the September unemployment rate for Kalamazoo County as a whole was 4.7 percent.

Portage has a well-balanced and diversified economy. Residential use accounts for 54 percent of the property value, industrial 22 percent and commercial 24 percent. Employment is also well balanced which is characterized by a high degree of manufacturing (21.3 percent of total employment), wholesale and retail trade (16.7 percent), and service activity (40.1 percent). Based on the 2002 census, the number of employed Portage residents was 23,566, yet 35,192 jobs existed within Portage, making Portage a net importer of jobs for residents from Kalamazoo County and beyond. By the year 2025, the number of jobs offered in the City of Portage is expected to increase to 37,928 (2002 Portage Comprehensive Plan).

The Pfizer Corporation has manufacturing, packaging and office facilities located in the City of Portage. Pfizer employs 6,000 persons in Kalamazoo County (of which 4,000 are in Portage) and about 120,000 worldwide. In addition to the development of a fine chemical processing facility at a cost of \$65,000,000 in 1992, a program of \$250,000,000 in improvements to the main manufacturing plant (Building #41) in Portage continues with \$160 million spent to date on this renovation since the program was announced in 1992.

Stryker Corporation constructed a 433,000 square-foot medical-products manufacturing facility in the City of Portage which was completed in 2005. This new facility, at the corner of Sprinkle Road and East Centre Avenue, will be the Stryker Medical Division manufacturing facility. The current medical-products activities located at 420 Alcott Street in Kalamazoo will be relocated to the new facility. Announced in December 2003, the manufacturing facility has an estimated value of \$33 million and will result in the retention of 80 existing jobs at the company and the addition of approximately 65 new jobs upon completion according to Stryker Corporation representatives. The Stryker Medical division focuses on the production of hospital and emergency service beds and stretchers.

In October 2004, the City of Portage Planning Commission approved the site plan for an estimated \$30 million dollar expansion at the Stryker Instruments facility located at 4100 East Milham Avenue. The new approximate 200,000 square foot manufacturing facility at the southeast corner of East Milham Avenue and South Sprinkle Road will build upon the success of the surgical instruments division. The Stryker Instruments division is the company's primary location for the production of replacement hips and joints, along with orthopedic surgical instruments such as medical drills, saws and micro-powered tools. These facilities located in Portage are part of a total facilities expansion and renovation project with a total estimated investment of \$62 million and an estimated total of 225 new jobs and 1,600 jobs retained according to communication from Stryker.

The continued diversification and growth of the local economy and tax base is viewed as essential to the community. In an effort to ensure a healthy economy, the City of Portage announced and implemented four major initiatives during the past ten years. These four initiatives are listed below:

1. **1996 Industrial Development Initiative:** an investment of nearly \$2 million in public infrastructure improvements to open up more than 100 acres of land for full-service industrial sites within industrial park settings. Several industrial facilities including Federal Express, Summit Polymers, Business Cards Plus, Avtech Laboratories, Idea, Inc., Kalamazoo Machine Tool, Quality Air Service, among others have constructed new facilities as a direct result of this city initiative. Private investment totals \$27 million to date.
2. **1998 Community Investment Initiative:** the combined investment of almost \$7 million from local, state and federal sources in important infrastructure projects within the first city Downtown Development Authority (DDA) district, development of the 50 acre Milham Business/Technology Park and the reconstruction of Shaver Road as a boulevard. Businesses including Gander Mountain, Meijer, Inc., Bennigan's Restaurant, Lowe's Home Improvement Center and Hooters Restaurant have also constructed new facilities as a result of the Community Investment Initiative. Businesses have invested approximately \$73.4 million to date.
3. **1999 Commerce Square Enhancement Initiative:** focused on enhancements to the South Westnedge Avenue commercial corridor including roadway improvements to South Westnedge Avenue, Mall Drive and Romence Road/Romence Road Parkway. These major roadway improvement projects will ensure the continued success of the central business area by providing safe and convenient access for patrons and employees. The Commerce Square Enhancement Initiative stimulated redevelopment of the northwest corner of South Westnedge Avenue and West Milham Avenue. Several aging and vacant buildings previously occupied this area, one of the busiest intersections in Kalamazoo County. These aging and vacant buildings have been razed and replaced with new facilities for Bed Bath and Beyond, Panera Bread and Consumers Credit Union. Babies'R'Us, a 25,000 square foot retail facility, opened in November 2003 at this location. The Commerce Square Enhancement Initiative also included a major project to improve water quality associated with local wetlands and Consolidated Drain No. 1 and, at the same time, reclaim land for development that was previously used for storm water retention. The total level of public investment amounted to more than \$9 million. The Shoppes at Romence Village, an approximate 150,000 square foot retail center anchored by D&W Food Center and Stein Mart has been constructed, with additional retailers Mr. Cody's Buffet, Great Clips, Renaissance Home & Garden, Candies Workout Express and Heritage Tanning completed in subsequent phases of this development project. To date, approximately \$61.5 million in private investment has occurred.
4. **The South Westnedge Avenue Enhancement Project:** a major corridor improvement program from Milham Avenue to Kilgore Road. The project is being initiated in 2004/2005 to coordinate with and facilitate the improvement of the I-94/South Westnedge Avenue interchange and associated widening of South Westnedge Avenue from Dawnlee Avenue to Trade Center Way by the Michigan Department of Transportation. The project includes street widening, new street construction and property acquisition.

South Westnedge Avenue is the most important north-south major street in Kalamazoo County and provides access to the major shopping areas in the city. Considerable new development and redevelopment is occurring on the South Westnedge Avenue corridor especially between Kilgore Road and Milham Avenue. The planned MDOT improvement to

the I-94/South Westnedge Avenue interchange and related freeway improvements will necessitate associated widening from Kilgore Road to Milham Avenue.

The success of these economic development initiatives is significant. Sixty-one businesses and industries have either expanded existing facilities in Portage, have been retained within Portage or have established new facilities within the community. In total to date, the level of investment is approaching \$174.5 million in estimated market value, with an estimated 3,258 added jobs. Although the City of Portage allocated significant local resources to ensure the success of these important economic development initiatives, the return on investment is significant.

The initial economic impacts associated with the private sector projects are very good news for the community in terms of diversifying the tax base and adding job opportunities for area residents. It is also important to underscore that these initiatives were accomplished without a tax increase and with a combination of local tax resources, private sector participation as well as state and federal funds.

The continued expansion of existing industrial facilities within the Sprinkle Road Industrial Corridor has also been significant. Major building renovations and/or additions are currently underway or have been announced by the Stryker Corporation, among others. The continued investment in the improvement of existing industrial facilities further indicates a healthy and growing economy.

Portage is also a major retail center for Southwest Michigan. The Crossroads Mall, a regional shopping center of more than 800,000 square feet, has approximately 100 tenants including Marshall-Fields Company, J.C. Penney & Company, Sears Roebuck & Company, and Mervyn's Department Store. Southland Mall is another major retail mall in the city. The nearly 300,000 square foot retail center includes Old Navy Apparel, Circuit City, Kohl's Department Store, Barnes & Noble Book Store, J.C. Penney Home Store and T.J. Maxx, among other stores. Several additional major retailers are located within Portage including: Meijer, Inc., Home Depot, Lowe's, Target, Best Buy, K-Mart Corporation, and Menards Home Improvement Center. Two other retail shopping centers, the Portage Crossings and the Carillon Center, have a combined building area of 308,000 square feet. Additionally, Sam's Club, a wholesale club, is also located within the city. Sam's Club wholesale club is constructing a new, larger (135,000 square foot) facility on S. Westnedge Avenue at Romence Road with an anticipated opening date in early 2006. The estimated employment of Portage retail trade establishments in 2002 was 9,500. The total retail area in the main South Westnedge commercial corridor is approximately 4 million square feet with a 98 percent occupancy rate as of November 2005.

Other projects which have had a positive impact on the local economy include the extension of the Romence Parkway to Portage Road in 2000, the creation of a Brownfield Redevelopment Authority in 2001 and several quality of life enhancements. The extension of Romence Parkway to Portage Road had a major impact on traffic flow in the community by providing an essential east-west link in the major thoroughfare system with improved access to the commercial corridor and to industrial centers in the community. East Milham Avenue from Oakland Drive to Lover's Lane, and Centre Avenue from Portage Road to Sprinkle Road have been widened. These improvements afford numerous economic development benefits, and provide improved roadway access and city utilities to Pfizer, Inc.

The creation of a Brownfield Redevelopment Authority in 2001 has provided an important economic incentive for the environmental clean-up and redevelopment of the former Portage Steel site located on West Centre Avenue. Redevelopment of this property, which was abandoned for several years, with an approximate \$10 million retail and office complex is a significant benefit to the city and to the other taxing jurisdictions. This ongoing redevelopment

project provides an expanded tax base and additional job opportunities (estimated to be 200-250) for area residents and is a significant economic development initiative within the area.

Several quality of life enhancement projects for area residents were also undertaken during the recent past. Community park enhancements recently included second phase completion of Harbors West Park with the addition of trails, in-line hockey facilities and playfield areas and the completion of the Bicentennial Park Trailhead at Kilgore Road with a creative fountain, landscaping, restrooms and pavilion. All park tennis and basketball courts were also resurfaced in 2003. The Lovers Lane Bikeway between Romence Road Parkway and Milham Avenue Boulevard was recently completed and provides a critical non-motorized trail link to other community trails. New bikeways were also incorporated into the East Milham Avenue and East Centre Avenue reconstruction projects. The Ice Rink at Millennium Park continues to be a major community recreational feature. This "state of the art" skating rink is the original outdoor-refrigerated ice surface in southwest Michigan.

There are several area and regional commercial bank branches and thrift institutions within the city, which serve the banking needs of the community and its residents. These include: Comerica, Bank One, National City, Fifth Third Bank, Flagstar Bank, LaSalle Bank, Huntington Bank, Portage Commerce Bank (headquartered in Portage), Keystone Community Bank and Chemical Bank - Shoreline.

Transportation needs are served by United, American and Northwest airlines through the Kalamazoo-Battle Creek International Airport; several bus services; and railroads. Two major highways, Interstate 94 and U.S. 131 intersect within the City of Portage, providing a major "crossroads" which continues to promote growth and development. The Michigan Department of Transportation has initiated the design stage to widen I-94 through the City of Portage. Completion of this important highway improvement project is expected in 2015-17. The City of Portage is 152 miles from Detroit on I-94, 148 miles from Chicago on I-94, and 245 miles from Indianapolis via I-94 and I-69, and so has access to 65 percent of the market population of the U.S. within 500 miles.

MAJOR INITIATIVES

For the Year.

The 2004/2005 budget emphasizes the areas of Transportation, Community Development, and Quality of the Environment.

- Transportation - Oakland Drive from Romence Road to West Centre Avenue expansion and rebuilding will improve the safety and traffic flow on Oakland Drive by adding an optional center left turn lane. Additional laneage is to be provided at the Romence Road and West Centre Avenue intersections to facilitate traffic movements. This project will include new curbs and gutters, new asphalt pavement, bike lanes, storm drainage and landscaping/restoration. Shaver Road/West Centre Avenue intersection will be improved by widening eastbound Centre Avenue and southbound Shaver Road by adding separate right turn lanes to accommodate right turn movements. Pavement widening and new curbs and gutters will be installed. This project includes property acquisition, traffic signal modifications, storm sewer adjustments and pavement markings. Engineering and design are completed with construction planned for the spring of 2006.

- Quality of Life Initiatives - Bicentennial Park Livery improvements include the purchase of canoes, kayaks, tubing rafts, bicycle surrey and related equipment, and a vehicle and trailer for expansion of services at the city livery facility. Playground improvements by painting all play structures, renovating perimeters, surfacing and adding play equipment as required at Bicentennial, Oakland Drive, West Lake Nature Preserve, Lakeview and Central Parks. Property purchased at 8751 Waruf Drive for inclusion into Ramona Park.
- Quality of the Environment – Sewer line additions on Ramona Avenue from Lovers Lane to Portage Road, and Charles Street from Portage Road to the east road end were added along with water mains. Expanded the existing stormwater retention basin in southeast quadrant on Oakland Drive near the intersection of Shuring Road. Continuing program to disconnect or improve direct stormwater discharges to the Portage Creek, Davis Creek, and Gourdneck Creek watershed.

FINANCIAL INFORMATION

The City Administration is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the city are protected from loss, theft or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, though not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgeting Controls. The city maintains budgetary controls through its financial management information system. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the governing body of the city. Activities of the General Fund, Special Revenue Funds, and Debt Service Funds are included in the annually appropriated budget. Project-length financial plans are adopted for the Capital Improvement Funds. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by activity or project within the individual funds. The city also maintains an encumbrance accounting system as one technique of accomplishing budgetary control.

As demonstrated by the statements and schedules included in the financial section of this report, the city continues to meet its responsibility for sound financial management.

Please see the section titled Management's Discussion and Analysis which follows the auditor's opinion for additional information relating to fiscal year 2004/2005.

Tax collections were 98.5 percent of the tax levy. The County of Kalamazoo has established a Delinquent Tax Revolving Fund and pays the city for all real property taxes returned as delinquent to the County Treasurer as of March 1 of each year. Allocation of property tax by purpose for fiscal 2004/2005 and for the proceeding five fiscal years are as follows (amounts per \$1,000 taxable value):

<u>PURPOSE</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
General Fund	7.4712	7.3592	7.4672	7.1480	7.0849	7.1469
Capital Improvements	2.0000	2.0000	2.0000	2.0000	2.0000	2.0000
Debt Service	0.0000	0.0000	0.1575	0.1920	0.1931	0.1931
Fall Leaf/Spring Cleanup	0.3530	0.4000	0.3870	0.2870	0.2870	0.4000
Curbside Recycling	<u>0.3200</u>	<u>0.3850</u>	<u>0.2900</u>	<u>0.3730</u>	<u>0.4350</u>	<u>0.3600</u>
	<u>10.1442</u>	<u>10.1442</u>	<u>10.3017</u>	<u>10.0000</u>	<u>10.0000</u>	<u>10.1000</u>

General Fund Balance. The total fund balance of the General Fund increased by \$346,719 in 2004/2005. In 1985 City Council established an intent that the General Fund fund balance be at least 13 percent of General Fund expenditures including transfers. The General Fund fund balance at June 30, 2005 was \$4,076,120 or 18.6 percent of actual 2004/2005 expenditures including transfers.

Debt Administration. The ratio of net general obligation debt to State Equalized Value and the amount of bonded debt per capita are useful indicators of the city debt position to municipal management, citizens and investors. These data for fiscal year 2004/2005 and previous fiscal years are as follows:

<u>June 30.</u>	<u>Net General Obligation Bonded Debt</u>	<u>Ratio of Net Bonded Debt to State Equalized Value (50% of Market Value)</u>	<u>Net Bonded Debt Per Capita*</u>
2005	\$65,323,948	3.15%	\$1,445*
2004	60,903,717	3.07	1,339*
2003	50,011,743	2.66	1,112*
2002	43,060,269	2.39	963*
2001	34,456,844	2.07	768*
2000	26,715,165	1.76	595
1999	20,049,675	1.36	452

* based on estimated population

In addition to general obligation bonded debt, the city has special assessment bonds with city commitment outstanding at June 30, 2005.

Tax supported debt continues to remain relatively stable as a percentage of the State Equalized Value of property in the city at 3.15 percent and is well under the 10 percent of state equalized value which is a benchmark used by credit rating agencies. The city debt load is manageable and will not adversely impact future operations.

During the fiscal year ended June 30, 2005, the city issued the following bonds:

<u>Description</u>	<u>Date</u>	<u>Amount</u>	<u>Effective Interest Rate</u>
Special Assessment Bonds	02/01/2005	650,000	3.65%
General Obligation City Share Bonds	02/03/2005	8,300,000	3.87%
Utility Revenue Bonds	02/03/2005	5,055,000	4.35%
Capital Improvement (LTGO)			
Refunding Bonds	06/14/2005	7,845,000	3.80%
Bond Anticipation Note	02/01/2005	1,055,000	2.80%

The city's general obligation bond rating was raised to AA by Standard & Poor's effective November 20, 2003. This solid rating has the effect of reducing borrowing costs, and is another indicator of the financial viability of the city and community.

Enterprise Operations. The city enterprise operations are comprised of the Water and Sewer Funds. At June 30, 2005, the Sewer and Water Funds had net asset value balances of \$48,021,861 and \$17,998,254 respectively. Utility financial soundness is exemplified by a cash balance of \$2,544,225 at June 30, 2005. Annual rate reviews ensure continued financial soundness of the utility system.

Cash Management. Cash on hand is invested in obligations of the U.S. Government and its agencies, commercial paper, bankers' acceptances, certificates of deposit from banks and pooled cash and investment money market funds as permitted by State law and city policy. The investment policy was revised by City Council in January 2005 requiring benchmark comparisons for all investments and limiting the term of allowable investments. The average yield on investments for the year ended June 30, 2005, excluding the Pension Trust Fund, was 2.39 percent (compared to an average of 1.67 percent for the 2003/2004 fiscal year). Interest rates ranged between a monthly high of 3.05 percent in May 2005 to a low of 1.74 percent in September 2004.

Risk Management. As of June 30, 2005, the city participates in a public entity risk pool, the Michigan Municipal Risk Management Authority pool, for insurance coverage for liability, auto, crime and property damage risks.

OTHER INFORMATION

Independent Audit. State statutes require an annual audit by independent certified public accountants. The accounting firm of BDO Seidman was selected by the city. The auditors' report on the general purpose financial statements and combining and individual fund statements and schedules is included in the financial section of this report.

Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the city for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This was the nineteenth consecutive year that the city has received this award. The Certificate of Achievement recognizes conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, the City of Portage published an easily readable and organized comprehensive annual financial report that conforms to program standards. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. It is believed that the current comprehensive annual financial report continues to meet the Certificate of Achievement program requirements, and will be submitted to the GFOA to determine eligibility for another certificate.

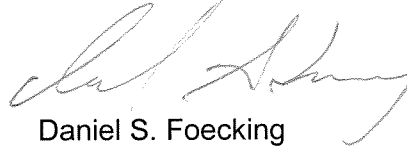
In addition, the city also received the GFOA Award for Distinguished Budget Presentation for the annual budget for the fiscal year 2004/2005. In order to qualify for the Distinguished Budget Presentation Award, the city budget document was judged to be proficient as a policy document, a financial plan, an operations guide and a communication device. This was the eighteenth consecutive year the City of Portage received this award.

Acknowledgments. This comprehensive annual financial report indicates the excellent financial condition of the City of Portage at June 30, 2005. The preparation of this report could not have been accomplished without the dedicated services of the Finance Department staff. Credit also goes to the Portage City Council for interest and support in planning and conducting the operations of the government in a responsible and progressive manner.

Sincerely,



Maurice S. Evans
City Manager



Daniel S. Foecking
Finance Director

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to City of Portage for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2004. This was the nineteenth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Portage,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Zjeld

President

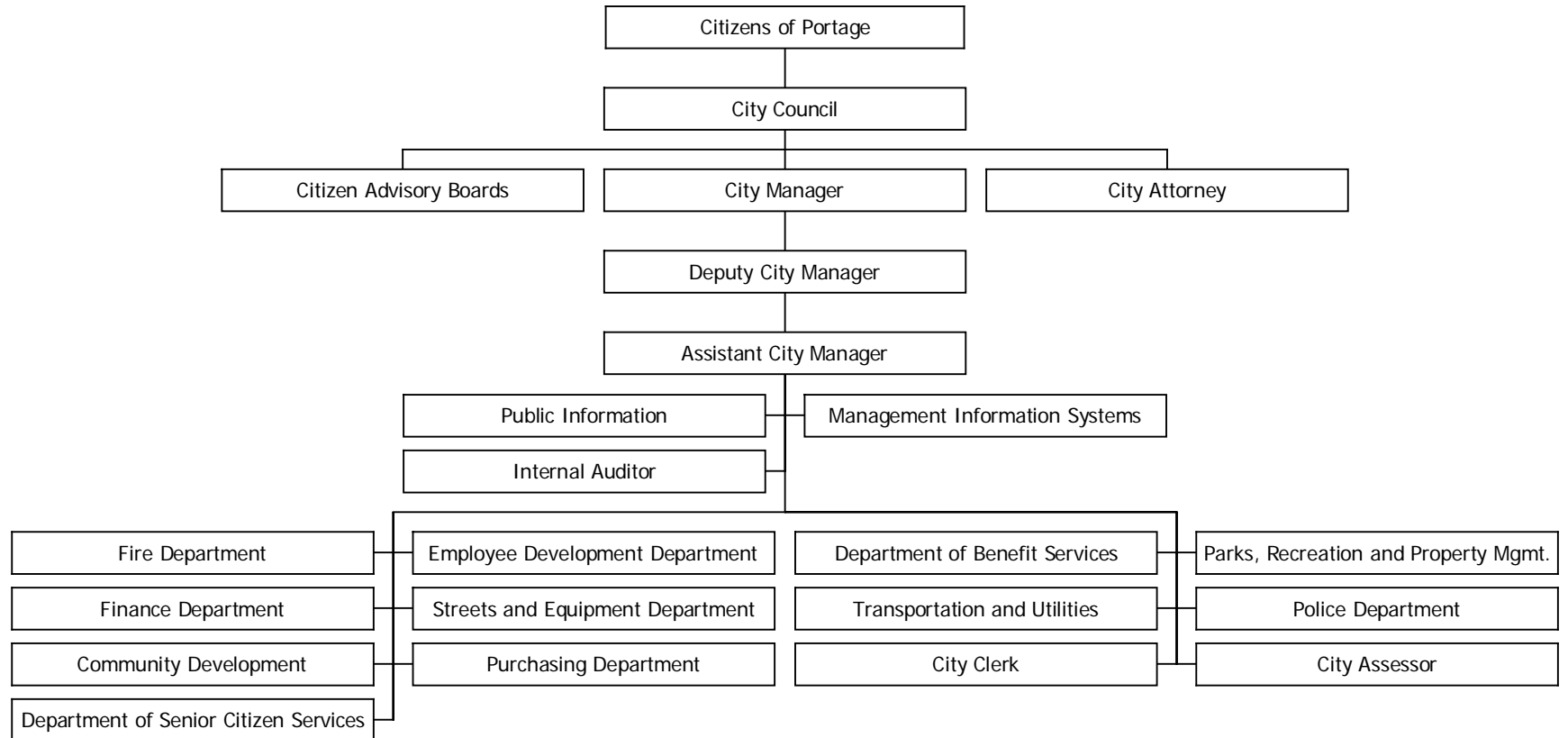
Jeffrey R. Emer

Executive Director

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.



City of Portage Organizational Chart



CITY OF PORTAGE, MICHIGAN
List of Elected and Appointed Officials
June 30, 2005

Elected Officials

Mayor	James Graham
Mayor Pro Tempore	Ted W. Vliek, Sr.
Council Member	Larry DeShazor
Council Member	Betty Lee Ongley
Council Member	Peter J. Strazdas
Council Member	Margaret E. O'Brien
Council Member	Terry R. Urban

Appointed Officials

City Manager	Michael L. Stampfler
Deputy City Manager	Brian B. Bowling
Assistant City Manager	Sean P. McBride
Assistant City Manager for Information Technology	Devin C. Mackinder
City Attorney	Randall Brown
City Clerk	James R. Hudson
Assessor	James C. Bush
Benefit Services Director	Patricia Thompson
Community Development Director	Jeffery Erickson
Employee Development Director	John R. Boulis
Finance Director	Daniel S. Foecking
Fire Chief	Randolph B. Lawton
Parks and Recreation Director	William M. Deming
Police Chief	Richard J. White
Purchasing Director	Robert Luders
Senior Citizen Services Director	Josephine Arnold
Streets and Equipment Director	Jack G. Hartman
Transportation and Utilities Director	G. Dallas Williams



BDO Seidman, LLP
Accountants and Consultants

211 East Water Street, Suite 300
Kalamazoo, Michigan 49007
Telephone: (269) 382-0170
Fax: (269) 345-1666

Independent Auditors' Report

Honorable Mayor and
Members of the City Council and City Manager
City of Portage
Portage, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Portage (the City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the management of the City. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2005, and the respective changes in financial position and cash flows of its proprietary fund types thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Management's Discussion and Analysis on Pages 5 through 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. Such information, except for the introductory section and portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "BDO Seidman, LLP". The signature is written in a cursive, flowing style.

Certified Public Accountants

October 10, 2005

This section of the City of Portage's (the City) Comprehensive Annual Financial Reports presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in the letter of transmittal, and the City's financial statements that follow this section.

Financial Highlights

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$115,852,483 dollars (net assets). Of this amount, \$21,215,569 (unrestricted net assets) may be used to meet the government's ongoing obligations to its citizens. Unrestricted fund balances for the City as a whole total \$21,215,569 or 39.3% of primary government expenses, including transfers, of \$53,961,014.

At the close of the current fiscal year, the unrestricted fund balance for the general fund was \$3 million or 14% of total general fund expenditures, including transfers, of \$21,888,731, while undifferentiated fund balance is 19% of total expenditures.

The City's total long-term obligations increased by \$11,811,000 after scheduled payments, during the fiscal year ended June 30, 2005. Governmental debt increased by \$5,786,000 and business-type debt increased by \$6,025,000. Business-type debt is self-supporting and does not rely on tax revenues for repayment. The key factor in this increase is the issuance of new debt that was partially offset by payment of existing debt.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements, which consist of three components:

- Government-wide financial statements,
- Fund financial statements, and
- Notes to the financial statements.

a. Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner comparable to a private-sector business. The two government-wide financial statements are, as follows:

- The **statement of net assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets.
- The **statement of activities** presents information showing how the City's net assets changed during the most recent fiscal year. All changes of net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to future general obligation debt payments. The statement includes the annual depreciation for infrastructure and governmental assets.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, streets and highways, and parks and facility management. The business-type activities of the City include the water and sewer utilities.

b. Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: governmental, proprietary and fiduciary funds. Within the governmental and proprietary categories, the emphasis is on the major funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in governmental funds, which focus on how cash and other financial assets can readily be converted to available resources and on the available balances left at the year-end. This information may be useful in determining what financial resources are available in the near future to finance the City's programs. Other funds are referred to as nonmajor funds and are presented as summary data.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide statements. In addition to the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balance, separate statements are provided that reconcile between the government-wide and fund level statements.

The City's general fund is considered a major fund, and information is presented separately in the governmental fund balance sheet and statements of revenues, expenditures and changes in fund balances. In addition to the other major governmental funds (special assessment, capital improvement, major and local streets, revolving loan, and Local Development Finance Authority) the City maintains several individual governmental funds organized according to their type: special revenue funds, debt service funds, and permanent funds. Data from these governmental funds are combined into a single column labeled nonmajor governmental funds. Individual fund data for the funds are provided in the form of combining statements in the supplementary section of this report.

Proprietary funds. Proprietary funds are generally used to account for services for which the City charges customers -- either outside customers or internal units or departments of the City. Proprietary fund statements provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the water and sewer utilities, each of which are major funds.
- Internal service funds are used to report activities that provide services for many City programs and activities. The City uses internal service funds to account for equipment and certain insurances. Because these services benefit governmental operations more than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Individual fund data for the funds are provided in the form of combining statements in the supplementary section of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Since the resources of fiduciary funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

Comparison of Government-wide and Fund Financial Components. The following chart compares how the City's funds are included in the government-wide and fund financial statements:

Fund Types	Government-wide	Fund Financials
General fund	Governmental	Governmental
Special assessment funds	Governmental	Governmental
Capital projects funds	Governmental	Governmental
Special revenue funds	Governmental	Governmental - nonmajor
Debt service funds	Governmental	Governmental - nonmajor
Permanent funds	Governmental	Governmental - nonmajor
Internal service funds	Governmental	Proprietary
Assets previously reported in General fixed asset group	Governmental	Excluded
Infrastructure assets	Governmental	Excluded
Liabilities previously reported in general long-term debt group	Governmental	Excluded
Water fund	Business-type	Proprietary
Sewer fund	Business-type	Proprietary
Fiduciary funds	Excluded	Fiduciary

Basis of reporting. The government-wide statements and fund-level proprietary statements are reported using the flow of economic resources measurement focus and on the full accrual basis of accounting. The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

c. Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Financial Analysis of the Government-wide Statements

a. Net Assets

The combined net assets of the City were as follows:

	Net Assets (in thousands)					
	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Assets						
Current and other assets	\$ 33,313	\$ 23,881	\$ 3,150	\$ 2,869	\$ 36,462	\$ 26,750
Capital assets	92,093	104,291	92,771	90,621	184,864	194,912
Total assets	125,406	128,172	95,921	93,490	221,326	221,662
Liabilities						
Long-term debt outstanding	69,107	63,323	29,159	24,240	98,266	87,563
Other liabilities	6,466	5,631	742	959	7,208	6,590
Total liabilities	75,573	68,954	29,901	25,199	105,474	94,153
Net assets						
Invested in capital assets, net of related debt	22,986	34,207	63,612	66,221	86,598	100,428
Restricted	7,840	9,244	200	700	8,040	9,944
Unrestricted	19,007	15,767	2,208	1,370	21,216	17,137
Total net assets	\$49,832	\$59,218	\$66,020	\$68,291	\$115,852	\$127,509

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$115.8 million at the close of the fiscal year, a decline of 9% over the prior year. This is attributable to the ongoing commitment to investing in capital improvements across the City. The largest portion of the City's net assets is restricted as to use, or is invested in capital assets (e.g. land, buildings, and equipment – 74.7%), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion of the City's net assets, \$8.04 million (6.9%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$21.22 million (18.3%) may be used to meet the government's ongoing obligations to citizens and creditors.

The Government Finance Officers Association recommends that, at a minimum, a government, regardless of size, maintain an unreserved fund balance no less than 5 to 15 percent of regular general fund operating revenue, or no less than one to two months of regular fund expenditures. An adequate level of unreserved fund balance is necessary to mitigate current and future risks, and to ensure stable tax rates and service levels. The Portage City Council has indicated that it wished to see a 13% fund balance maintained as a guideline based on expenditures. At the end of the current fiscal year, the City is able to report positive balances in net assets for the government as a whole, as well as for business-type activities. It is also able to report an adequate level of fund balance at year-end.

b. Changes in Net Assets

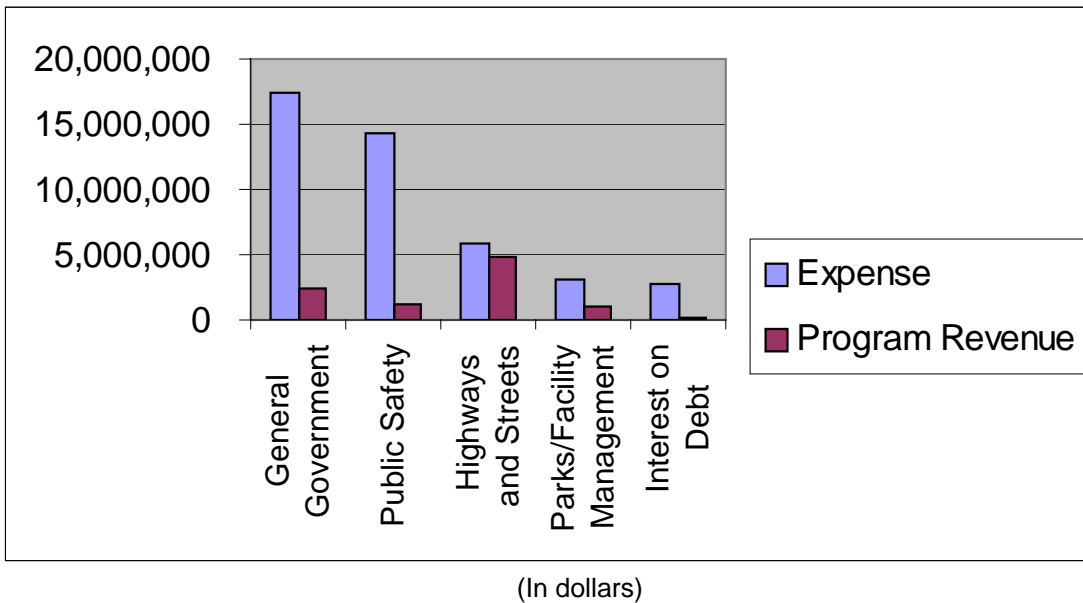
Total net assets of the City decreased by \$11.7 million in the current year. Governmental net assets decreased \$9.4 million, which is attributable primarily to the interaction of depreciation expense, offset by an increase in new fixed assets, coupled with an increase in debt issues reducing the value of capital assets net of debt. The business-type net assets decreased by \$2.3 million for the same reasons. For both Governmental Activities and Business-Type Activities, increases in operating costs over fiscal 2004 are the result of wage and benefit cost increases for both union and non-union employees.

Changes in Net Assets						
(in thousands)						
	Governmental Activities		Business-type Activities		Total Primary Government	
Revenues	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Program revenues:						
Charges for services	\$ 2,475	\$ 2,313	\$ 7,972	\$ 7,450	\$ 10,447	\$ 9,763
Capital grants	2,311	2,468	-	-	2,311	2,468
Operating grants	4,992	4,650	98	78	5,090	4,728
General revenues:						
Property taxes	17,928	16,583	-	-	17,928	16,583
Interest revenue	296	161	-	-	296	161
Gain/(loss)	26	3	-	-	26	3
Other general revenues	6,207	6,242	-	203	6,207	6,445
Total revenues	34,235	32,420	8,070	7,731	38,490	40,151
Program expenses						
Legislative	48	45	-	-	48	45
Judicial	12	7	-	-	12	7
General government	6,014	5,873	-	-	6,014	5,873
Public safety	14,352	13,968	-	-	14,352	13,968
Public works	357	363	-	-	357	363
Health and welfare	1,714	1,469	-	-	1,714	1,469
Economic development	2,535	-	-	-	2,535	-
Recreation and cultural	3,125	3,159	-	-	3,125	3,159
Public transportation	118	112	-	-	118	112
Highways and streets	5,483	5,747	-	-	5,483	5,747
Unallocated depreciation	7,023	7,007	-	-	7,023	7,007
Interest on long-term debt	2,739	3,016	-	-	2,739	3,016
Sewer	-	-	5,472	5,143	5,472	5,143
Water	-	-	4,969	6,742	4,968	6,742
Total expenses	43,520	40,767	10,441	11,885	53,961	52,653
Excess (deficiency)						
Before transfers	(9,285)	(8,347)	(2,371)	(4,154)	(12,501)	(12,501)
Transfers	(100)	(442)	100	239	-	(203)
Increase (decrease) in net assets	\$ (9,385)	\$ (8,789)	\$ (2,271)	\$ (3,915)	\$ (11,656)	\$ (12,704)

c. Program Revenues and Expenses - Governmental Activities

The chart below illustrates the City's governmental expense and activity revenues by function: general government, public safety, highways and streets, parks and facility management, and interest on debt. This chart illustrates the degree to which the primary activities of the City are funded through fees, charges, restricted revenue sharing programs, restricted grant funding, and other revenue initiatives. It is clear that very few City services would be possible without tax revenue. Highway and street services appear closest to self-supporting although the revenue in this sector is provided by state of Michigan Act 51 funding derived from fuel taxes. A decline in that revenue has been experienced in recent years, which is of concern.

Government-wide Program Operating Expenses and Revenues - Governmental Activities



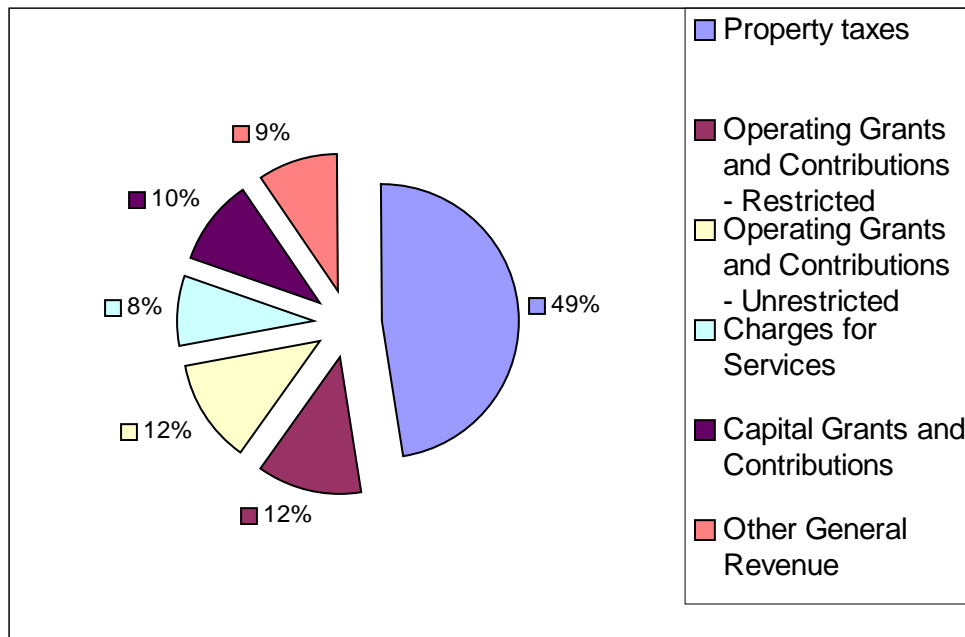
General revenues such as property taxes, fees and charges for services, and unrestricted grants and contributions are not shown by program, but are used to support program activities City-wide. For governmental activities, without regard to program, property taxes are the largest source of revenue, followed by restricted and unrestricted grant and contribution revenue, and charges for services.

Governmental Activities (in thousands)

	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
Public safety	\$14,352	\$13,968	\$13,143	\$12,880
General government	6,014	5,873	5,426	5,558
Highways and streets	5,483	5,747	1,710	2,041
Recreation and cultural	3,125	3,159	2,023	2,057
Health and welfare	1,714	1,469	(65)	(253)
All others	12,832	10,551	11,506	9,053
Total expenses	<u>\$43,520</u>	<u>\$40,767</u>	<u>\$33,743</u>	<u>\$31,336</u>

The governmental activities chart above factors in general revenues from property taxes, fees and charges for services. It compares cost and net cost from 2003/2004 to 2004/2005. Costs increased primarily as a result of contractual increases, continued emphasis on street and highway infrastructure expenditure to attract economic development, and the non-cash impact of recognizing depreciation expense. Continued reductions in all intergovernmental revenues, and the continuing decline in the availability and amounts of grant funding are also behind the increase in the net cost of services.

Government-wide Total Revenues by Source - Governmental Activities

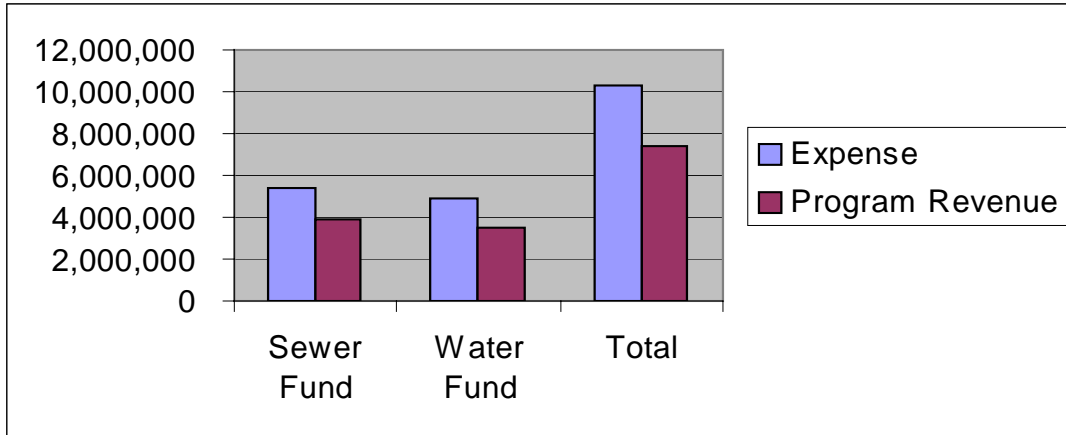


The above chart shows that each City revenue dollar consists of 49% property tax, 12% restricted purpose/use grant funding, 12% unrestricted grant funding, 8% charges for services, 10% capital grants and contributions, and 9% various types of other revenue.

d. Program Revenues and Expenses -- Business-type Activities

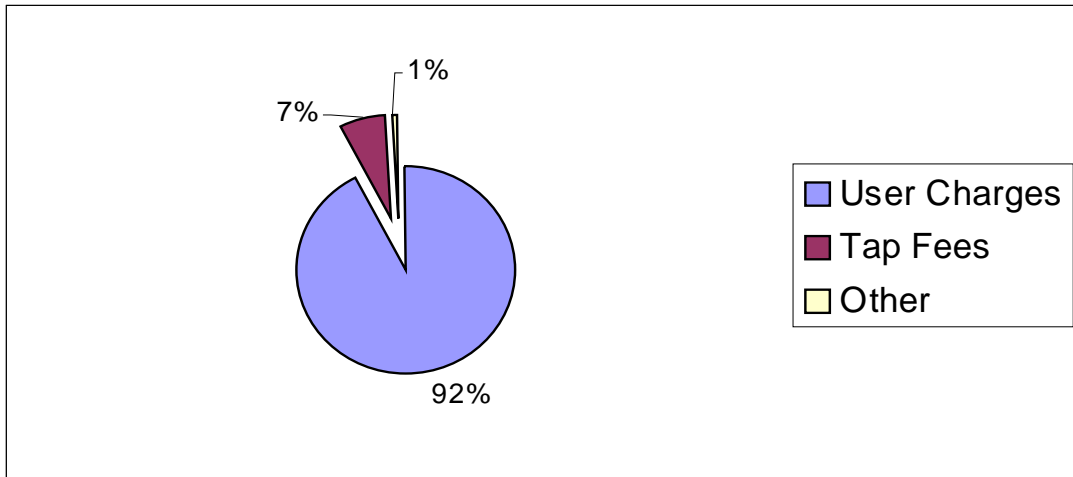
As shown in the following chart, combined operating expenditures exceeded combined operating revenues for the business-type activities. While leaving an adequate fund balance as directed by City Council, making use of fund balance rather than increasing user fees was the strategic direction implemented by City Administration to continue operations, maintenance and improvement of City water and sewer systems.

Government-wide Operating Expenses and Program Revenues - Business-type Activities
(In dollars)



For business-type activities, charges for services provide the largest percentage of revenues (98.7%). Sewer tap fees (\$529,401) are treated as contributed capital for financial reporting purposes indicating continuing growth in utility infrastructure that will, in turn, produce additional recurring revenue in the form of utility bills.

Government-wide Operating Revenue by Source - Business-type Activities



Financial Analysis of the Government's Fund Level Statements

In comparison to the government-wide statements, the fund-level statements focus on the key funds of the City. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

a. Governmental funds

The City reports the following types of governmental funds: the general fund, special assessments fund, capital improvement fund, and permanent funds. The focus of the City's governmental funds is to provide information on the near-term inflows, outflows and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unrestricted fund balance of the general fund was \$3 million, while total fund balance was \$4 million. As a measure of the general fund's liquidity, it may be useful to compare both unrestricted fund balance and total fund balance to total fund expenditures. Unrestricted fund balance represents 13.5% of total general fund expenditures (including transfers) of \$22 million, and total fund balance represents 19% of expenditures.

The fund balance in the general fund increased by \$346,719 during the fiscal year. The primary factor in the increase was prompt conservative action taken to control operating costs in light of continuing reductions in revenue from the state of Michigan and other governmental sources. Property tax revenues increased by 7.5% over fiscal 2003/2004, or approximately \$960,000, offsetting unavoidable cost increases. The increase in tax revenue is not a result of tax rate increases, in fact the 2004/2005 combined tax rate is the same as in 2003/2004. The increase in revenue is a direct result of growth in tax base.

The fund balance of the special assessment fund decreased on the basis of debt service in excess of current inflows. This utilization of fund balance mitigates the timing differences between the receipt of advance payoffs of assessments and the bond payment schedule.

The capital improvement fund balance decreased by \$2.3 million as the result of the completion of a number of capital projects in the City and their transition to fixed assets placed in service. The transition to completed improvements exceeded the amount of debt issued.

The Major and Local Streets funds are displayed as major funds in the financial statements at the direction of the State of Michigan. Major Streets showed a modest increase in fund balance, while Local Streets showed almost an equal and opposite decrease in fund balance. On the whole, these funds are in approximately the same position as in 2003/2004. Due to a decline in state of Michigan Act 51 funding that is derived from per gallon gasoline tax during 2004/2005, aggressive action was taken to reduce planned spending to match the decline in state revenue. Although actual combined expenditures increased by \$379,731 over 2003/2004 ((9%), and state source revenues decreased by \$88,000 (3%), prompt cost control was crucial in maintaining the target fund balances.

b. Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

- Sewer fund net assets decreased by \$857,000 primarily due to a substantial retroactive cost adjustment billed by the Kalamazoo Department of Public Utilities for wastewater treatment, infrastructure expenditures for sewer line extensions, and other capital investment.
- Water fund net assets decreased by \$1.4 million as a result of increases in general and administrative costs, debt service cost, and depreciation in excess of the amount of increase in revenue. At the outset of the year, it was determined by City Administration that fund balance would be allowed to absorb cost increases to dampen the effect on consumer rate increases over the short term.

c. Fiduciary funds

The City is the trustee, or *fiduciary*, for certain of its employees pension plans. It is also responsible for other assets that - because of trust arrangements - can be used only for the trust beneficiaries. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets in the Supplemental. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Other Information

a. General fund budgetary highlights

The final amended expenditure budget for the general fund was \$1,087,737 greater than the original budget. This increase was the result of encumbrances carried forward from previous budget year appropriations, and the receipt of a state grant by the City Assessors' office. The amended budget reflects the reallocation of resources within the fund during the year for cost controls initiated by the City Manager.

The amended revenue budget for the general fund was \$145,565 more than the original budget reflecting grants awarded that were not included in the original budget.

b. Capital assets

The City's capital assets for governmental and business-type activities as of June 30, 2005, amount to \$197,066,470 (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, vehicles, and infrastructure. The total increase in the City's capital assets, before depreciation, for the current fiscal year was \$11,375,500. Capital asset balances are as follows:

**Capital Assets at Year-end
(net of depreciation, in thousands)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 7,606	\$ 6,420	\$ 218	\$ 218	\$ 7,824	\$ 6,638
Land improvements	3,621	3,236	51	58	3,672	3,294
Buildings	9,459	7,821	499	534	9,958	8,355
Machinery and equipment	1,201	1,214	259	319	1,460	1,533
Vehicles	2,834	2,170	-	-	2,834	2,170
Water / sewer system	-	-	91,962	89,492	91,962	89,492
Infrastructure	79,357	83,431	-	-	79,357	83,431
Totals	\$ 104,078	\$ 104,290	\$ 92,989	\$90,621	\$197,067	\$194,912

Major capital asset events during the current fiscal year included the following:

- Governmental capital assets increased by \$8.9 million, \$2.9 million of which was due to the addition of infrastructure assets.
- Business-type activities purchased or completed construction on capital assets of \$3.7 million, consisting of the replacement and extension of sewer and water lines, and well renovation costs.

More detailed information regarding capital assets can be found in Note 6 to the financial statements.

c. Debt Administration

At the end of the current fiscal year, the City reported \$94 million in outstanding bonded debt. Of this amount, \$70 million is general obligation debt backed by the full faith and credit of the City, \$24 million is revenue bonds, and other bonded debt requiring varying levels of guarantee. In addition, the City reported other long-term obligations of \$3.9 million. At the end of the year, the City issued \$7.8 million in Capital Improvement Refunding bonds to defease seven bond issues (Series 1991 through 2000) in order to generate economic savings of approximately \$500,000 over the life of the debt. Additional information can be found in Note 7.

**Outstanding Obligations at Year-end
(in thousands)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
General Obligation Bonds (backed by the city)	\$ 65,205	\$ 60,809	\$ 5,089	\$ 4,685	\$ 70,294	\$ 65,494
Revenue Bonds (backed By specific revenues)	-	-	24,000	19,525	24,000	19,525
Totals	<u>\$ 65,205</u>	<u>\$ 60,809</u>	<u>\$ 29,089</u>	<u>\$ 24,210</u>	<u>\$ 94,294</u>	<u>\$ 85,019</u>

During fiscal year 2005, the City's total long-term obligations increased by \$9.3 million, net of scheduled payments, The City issued new debt, and the issues included:

- Bonded debt for government functions increased by \$4.4 million, and was used primarily for the following: park and bikeway improvements, and police station renovation. Street projects included: Sprinkle Road at Romence Road improvements, railroad crossing upgrades, Oakland Drive from Romence Road to West Centre Avenue improvements, and major street resurfacing. Other obligations increased by \$1.4 million primarily due to issuance of a bond anticipation note (BAN).
- Bonded debt for business-type functions increased \$4.9 million, net of scheduled payments, and was used primarily for infrastructure extensions.

The City continues to maintain excellent credit ratings on debt issues, and in November, 2003, received and upgrade in rating from Standard and Poor's from AA- to AA.

d. Economic Factors and Next Year's Budget and Rates

The City Manager and the City's elected officials considered many factors when setting the fiscal year 2005/2006 budget. Promising signs of growth have resulted in initiatives such as the new Stryker facility, expected to commence operations in spring of 2006, and the Romence Road Sam's Club currently under construction. Employment has been relatively stable. In late 2002, the City began a savings plan to build reserves for 2002/2003 and beyond. This initiative has continued and the savings are smoothing the City's transition through the continuing decline in state source revenues. The City has continued aggressive cost containment measures, with City departments identifying one-time and on-going cost savings. City management has reduced costs through implementation of process improvements for greater efficiencies. The City has continued to pursue an aggressive course of economic diversification and development, as well as an emphasis on maintaining and improving its infrastructure, as a means to grow tax base and not rely solely on cost cutting to weather rough economic times. In late 2004, the City began planning for its 2005/2006 budget addressing slower growth in tax base, and continuing decline in all categories of state funding.

e. Requests for information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the finance department of the City of Portage, 7900 South Westnedge Avenue, Portage, Michigan 49002, or 269-329-4456, or on the web at <http://www.portagemi.gov>.

CITY OF PORTAGE, MICHIGAN
Statement of Net Assets
June 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Corporation
Assets				
Cash and equivalents	\$ 12,420,187	\$ -	\$ 12,420,187	\$ 17,868
Receivables, net	8,235,880	2,370,593	10,606,473	-
Prepaid items and other assets	671,969	361,080	1,033,049	-
Restricted assets:				
Permanently restricted:				
Cash	-	200,000	200,000	-
Land and rights of way	11,984,642	217,945	12,202,587	-
Capital assets, net of depreciation	92,092,879	92,771,004	184,863,883	-
Total assets	125,405,557	95,920,622	221,326,179	17,868
Liabilities				
Accounts payable and accrued expenses	6,279,041	428,561	6,707,602	-
Checks issued on future deposits	-	256,998	256,998	-
Unearned revenue	1,242,016	55,890	1,297,906	-
Long-term liabilities:				
Due within one year	4,575,263	1,584,853	6,160,116	-
Due in more than one year	63,476,869	27,574,205	91,051,074	-
Total liabilities	75,573,189	29,900,507	105,473,696	-
Net assets				
Invested in capital assets, net of related debt	24,040,747	63,611,946	87,652,693	-
Restricted for:				
Debt service	6,232,542	200,000	6,432,542	-
Capital projects	933,169	-	933,169	-
Nonexpendable trust	673,511	-	673,511	-
Unrestricted	17,952,399	2,208,169	20,160,568	17,868
Total net assets	\$ 49,832,368	\$ 66,020,115	\$ 115,852,483	\$ 17,868

The notes to the financial statements are an integral part of this statement.

CITY OF PORTAGE, MICHIGAN
Statement of Activities
Fiscal Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total	Component Unit Economic Dev. Corp.
Primary government								
Governmental activities:								
Legislative	\$ 48,359	\$ -	\$ -	\$ -	\$ (48,359)	\$ -	\$ (48,359)	\$ -
Judicial	11,798	36,192	-	-	24,394	-	24,394	-
General government	6,013,970	171,103	416,701	-	(5,426,166)	-	(5,426,166)	-
Public safety	14,351,727	1,067,565	141,607	-	(13,142,555)	-	(13,142,555)	-
Public works	357,212	-	61,500	978,291	682,579	-	682,579	-
Health and welfare	1,713,796	158,829	438,051	1,182,292	65,376	-	65,376	-
Economic development	2,535,253	-	13,639	-	(2,521,614)	-	(2,521,614)	-
Recreation and cultural	3,125,208	805,667	296,543	51	(2,022,947)	-	(2,022,947)	-
Public transportation	118,499	-	-	-	(118,499)	-	(118,499)	-
Highways and streets	5,482,894	-	3,622,636	150,000	(1,710,258)	-	(1,710,258)	-
Unallocated depreciation expense	7,022,603	-	-	-	(7,022,603)	-	(7,022,603)	-
Interest on long-term debt	2,738,858	235,353	1,158	-	(2,502,347)	-	(2,502,347)	-
Total governmental activities	43,520,177	2,474,709	4,991,835	2,310,634	(33,742,999)	-	(33,742,999)	-
Business-type activities:								
Sewer	5,472,065	4,432,321	65,477	-	-	(974,267)	(974,267)	-
Water	4,968,772	3,539,546	32,349	-	-	(1,396,877)	(1,396,877)	-
Total business-type activities	10,440,837	7,971,867	97,826	-	-	(2,371,144)	(2,371,144)	-
Total primary government	53,961,014	10,446,576	5,089,661	2,310,634	(33,742,999)	(2,371,144)	(36,114,143)	-
Component unit								
Economic Development Corporation	-	-	101	-	-	-	-	101
Total component units	\$ -	\$ -	\$ 101	\$ -	-	-	-	101
General revenues:								
Property taxes					17,928,318	-	17,928,318	-
Grants and contributions not restricted to specific programs					6,207,228	-	6,207,228	-
Unrestricted investment earnings					296,197	-	296,197	-
Gain on sale of capital assets					26,355	-	26,355	-
Transfers					(100,000)	100,000	-	-
Total general revenues and transfers					24,358,098	100,000	24,458,098	-
Change in net assets					(9,384,901)	(2,271,144)	(11,656,045)	101
Net assets - beginning					59,217,269	68,291,259	127,508,528	17,767
Net assets - ending					\$ 49,832,368	\$ 66,020,115	\$ 115,852,483	\$ 17,868

The notes to the financial statements are an integral part of this statement.

CITY OF PORTAGE, MICHIGAN

Balance Sheet Governmental Funds June 30, 2005

	General Fund	Special Assessments Fund	Capital Improvement Fund	Major Streets Fund	Local Streets Fund	Nonmajor Governmental Funds	Total
ASSETS							
Cash and investments	\$ 3,724,662	\$ 2,998,379	\$ 2,629,560	\$ -	\$ 146,426	\$ 2,094,676	\$ 11,593,703
Accounts receivable	37,418	-	45,513	-	2,198	1,463,733	1,548,862
Delinquent taxes receivable	53,226	-	-	-	-	-	53,226
Special assessments receivable	-	4,966,920	-	-	-	-	4,966,920
Due from other governments	722,242	127,419	-	596,143	128,868	91,569	1,666,241
Prepaid costs	476,306	-	-	19,860	14,793	11,089	522,048
Total assets	<u>\$ 5,013,854</u>	<u>\$ 8,092,718</u>	<u>\$ 2,675,073</u>	<u>\$ 616,003</u>	<u>\$ 292,285</u>	<u>\$ 3,661,067</u>	<u>\$ 20,351,000</u>
LIABILITIES							
Accounts payable	\$ 237,727	\$ -	\$ 636,414	\$ 34,362	\$ 17,242	\$ 56,346	\$ 982,091
Checks issued against future deposits	-	-	-	97,975	-	66,144	164,119
Accrued compensation	548,600	-	-	34,047	15,129	10,656	608,432
Interest payable	-	-	70	-	-	5,287	5,357
Deferred revenue	7,229	5,291,570	-	-	-	1,234,788	6,533,587
Deposits payable	144,178	-	50,420	-	7,095	25,000	226,693
Bond anticipation note	-	-	1,055,000	-	-	-	1,055,000
Total liabilities	<u>937,734</u>	<u>5,291,570</u>	<u>1,741,904</u>	<u>166,384</u>	<u>39,466</u>	<u>1,398,221</u>	<u>9,575,279</u>
FUND BALANCE							
Reserved for encumbrances	586,224	-	-	34,572	7,105	68,858	696,759
Reserved for prepaid costs	476,306	-	-	19,860	14,793	11,089	522,048
Reserved for imprest cash funds	3,950	-	-	-	-	-	3,950
Reserved for emergency preparedness	1,000	-	-	-	-	-	1,000
Reserved for public safety training	42,004	-	-	-	-	-	42,004
Reserved for uncompleted projects	-	-	933,169	-	-	112,335	1,045,504
Reserved for debt service	-	-	-	-	-	935,685	935,685
Reserved for perpetual care	-	-	-	-	-	673,511	673,511
Reserved for loans	-	-	-	-	-	6,660	6,660
Unreserved and undesignated, reported in:							
General fund	2,966,636	-	-	-	-	-	2,966,636
Debt service funds	-	2,801,148	-	-	-	-	2,801,148
Special revenue funds	-	-	-	395,187	230,921	-	626,108
Permanent funds	-	-	-	-	-	454,708	454,708
Total fund balance	<u>4,076,120</u>	<u>2,801,148</u>	<u>933,169</u>	<u>449,619</u>	<u>252,819</u>	<u>2,262,846</u>	<u>10,775,721</u>
Total liabilities and fund balance	<u>\$ 5,013,854</u>	<u>\$ 8,092,718</u>	<u>\$ 2,675,073</u>	<u>\$ 616,003</u>	<u>\$ 292,285</u>	<u>\$ 3,661,067</u>	<u>\$ 20,351,000</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PORTAGE, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets
June 30, 2005

Fund balances - total governmental funds	\$ 10,775,721
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

Add: capital assets	212,551,802
Subtract: accumulated depreciation	(110,619,850)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred special assessments	5,291,570
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Internal service funds are used by management to charge the costs of insurance and equipment to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in internal service funds	593,641
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Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: bonds payable, net of internal service fund debt	(63,187,268)
Subtract: compensated absences and other long-term liabilities, net of internal service fund compensated absences	(2,815,114)
Subtract: accrued interest on long-term liabilities	<u>(2,758,134)</u>

Net assets of governmental activities	<u><u>\$ 49,832,368</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF PORTAGE, MICHIGAN
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

Fiscal Year Ended June 30, 2005

	General Fund	Special Assessments Fund	Capital Improvement Fund	Major Streets Fund	Local Streets Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:							
Taxes and special assessments	\$ 13,894,442	\$ 626,428	\$ 3,504,162	\$ -	\$ -	\$ 1,712,057	\$ 19,737,089
Licenses and permits	767,866	-	-	-	-	503,063	1,270,929
Intergovernmental	4,177,649	-	62,552	2,814,003	796,597	423,641	8,274,442
Charges for services	2,772,430	-	-	-	-	81,428	2,853,858
Fines and forfeits	4,192	-	-	-	-	-	4,192
Interest and rents	346,591	314,713	35	8,567	178	285,130	955,214
Other	263,779	-	464,252	1,062	2,229	266,748	998,070
Total revenues	<u>22,226,949</u>	<u>941,141</u>	<u>4,031,001</u>	<u>2,823,632</u>	<u>799,004</u>	<u>3,272,067</u>	<u>34,093,794</u>
EXPENDITURES:							
Current:							
Legislative	48,359	-	-	-	-	-	48,359
Judicial	11,798	-	-	-	-	-	11,798
General government	5,208,640	-	-	-	-	55,167	5,263,807
Public safety	13,212,000	-	-	-	-	65,987	13,277,987
Public works	339,243	-	-	-	-	-	339,243
Health and welfare	127,516	-	-	-	-	1,566,814	1,694,330
Recreation and cultural	2,124,099	-	-	-	-	575,336	2,699,435
Public transportation	112,780	-	-	-	-	-	112,780
Highways and streets	-	-	-	1,990,205	1,764,437	-	3,754,642
Development	-	-	-	-	-	2,535,253	2,535,253
Capital outlay	-	-	10,488,195	-	-	-	10,488,195
Debt service:							
Principal	-	910,000	-	-	-	2,456,328	3,366,328
Interest and fiscal charges	-	354,277	-	-	-	2,236,341	2,590,618
Total expenditures	<u>21,184,435</u>	<u>1,264,277</u>	<u>10,488,195</u>	<u>1,990,205</u>	<u>1,764,437</u>	<u>9,491,226</u>	<u>46,182,775</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,042,514</u>	<u>(323,136)</u>	<u>(6,457,194)</u>	<u>833,427</u>	<u>(965,433)</u>	<u>(6,219,159)</u>	<u>(12,088,981)</u>
OTHER FINANCING SOURCES (USES):							
Issuance of debt	-	-	8,062,900	-	-	-	8,062,900
Transfers in	8,500	-	240,595	36,390	915,779	4,043,700	5,244,964
Transfers out	<u>(704,295)</u>	<u>-</u>	<u>(4,153,029)</u>	<u>(803,051)</u>	<u>(19,000)</u>	<u>(32,589)</u>	<u>(5,711,964)</u>
Net other financing sources (uses)	<u>(695,795)</u>	<u>-</u>	<u>4,150,466</u>	<u>(766,661)</u>	<u>896,779</u>	<u>4,011,111</u>	<u>7,595,900</u>
Net change in fund balances	346,719	(323,136)	(2,306,728)	66,766	(68,654)	(2,208,048)	(4,493,081)
Fund balances - beginning	<u>3,729,401</u>	<u>3,124,284</u>	<u>3,239,897</u>	<u>382,853</u>	<u>321,473</u>	<u>4,470,894</u>	<u>15,268,802</u>
Fund balances - ending	<u>\$ 4,076,120</u>	<u>\$ 2,801,148</u>	<u>\$ 933,169</u>	<u>\$ 449,619</u>	<u>\$ 252,819</u>	<u>\$ 2,262,846</u>	<u>\$ 10,775,721</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PORTAGE, MICHIGAN
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Fiscal Year Ended June 30, 2005

Net change in fund balances - total governmental funds \$ (4,493,081)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	7,335,950
Subtract: depreciation expense	(7,588,111)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	3,366,328
Add: change in Special Revenue deferred revenue	98,650
Subtract: issuance of debt	(8,062,900)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add: prior year accrued interest on bonds	2,675,031
Subtract: current year accrued interest on bonds	(2,758,134)
Subtract: increase in the accrual of compensated absences	(338,510)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

Add: interest revenue from governmental internal service funds	17,543
Add: gain on disposal of fixed assets in governmental internal service funds	26,355
Add: issued debt transferred to internal service fund	367,000
Subtract: interest expense from governmental internal service funds	(65,137)
Add: net operating loss from governmental activities accounted for in internal service funds	<u>34,115</u>

Change in net assets of governmental activities	<u><u>\$ (9,384,901)</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF PORTAGE, MICHIGAN

General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual Fiscal Year Ended June 30, 2005

REVENUES:	Original Budget	Amended Budget	Actual	Variance with Amended Budget + / (-)
Taxes:				
Property tax collections	\$ 13,121,100	\$ 13,171,208	\$ 13,079,648	\$ (91,560)
Penalty and interest	50,000	50,000	64,831	14,831
Administration fees	750,000	750,000	749,963	(37)
Licenses and permits:				
Building fees and permits	640,000	640,000	743,241	103,241
Liquor licenses	24,000	24,000	24,625	625
Other permits	500	500	-	(500)
Federal grants	27,500	44,198	36,551	(7,647)
State Grants:				
Revenue sharing	4,078,810	4,078,810	3,973,483	(105,327)
Criminal justice grants	10,000	10,000	15,002	5,002
Parks grants	2,500	2,500	1,875	(625)
Senior Center grants	61,250	61,250	47,114	(14,136)
Tax audit grants	-	76,759	50,604	(26,155)
Other state grants	40,000	40,000	18,413	(21,587)
Contribution from local units	27,400	29,400	34,607	5,207
Charges for services:				
Recreation fees	207,900	195,900	195,077	(823)
Police service fees	215,100	215,100	233,757	18,657
Planning, zoning and site fees	89,000	89,000	124,033	35,033
Accounting and management	2,136,710	2,136,710	2,136,690	(20)
Cemetery	56,000	56,000	49,517	(6,483)
Court Cost Reimbursement	32,000	32,000	32,000	-
Senior Center	500	500	425	(75)
Other	1,550	1,550	931	(619)
Fines and forfeits	25,000	25,000	4,192	(20,808)
Interest and rents:				
Interest on investments	150,000	150,000	278,619	128,619
Rental income	43,000	55,000	67,972	12,972
Other:				
Reimbursements:				
Senior Center	121,200	121,200	116,929	(4,271)
Other reimbursements	31,900	31,900	4,852	(27,048)
Property sales	25,000	25,000	95,093	70,093
Donations	14,000	14,000	7,000	(7,000)
Miscellaneous	105,600	105,600	39,905	(65,695)
Total revenues	22,087,520	22,233,085	22,226,949	(6,136)

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CITY OF PORTAGE, MICHIGAN

General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual (continued) Fiscal Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget + / (-)
EXPENDITURES:				
Judicial:				
District Court	\$ 23,000	\$ 23,000	\$ 11,798	\$ 11,202
Legislative:				
City Council	48,600	49,124	48,359	765
General Government:				
City Manager	743,366	865,766	809,026	56,740
Finance:				
Accounting	353,956	335,956	292,937	43,019
Financial management	355,409	363,548	316,445	47,103
Treasury	227,665	260,665	209,544	51,121
City assessor:				
Assessor	652,642	888,249	652,486	235,763
Board of review	24,432	24,432	23,902	530
City attorney	180,464	180,464	179,631	833
City clerk:				
Elections	163,117	192,409	179,651	12,758
City clerk	166,095	171,867	142,606	29,261
Records management	56,503	60,863	55,306	5,557
Human resources:				
Employee development	540,312	596,646	484,471	112,175
Benefit services	361,409	408,333	357,631	50,702
Information services:				
Management information services	737,400	737,607	717,118	20,489
Communication services	3,798	3,798	(7,942)	11,740
Purchasing:				
Purchasing	182,533	250,608	194,933	55,675
Risk management	25,724	25,724	28,911	(3,187)
Buildings	512,340	521,320	468,522	52,798
Cemeteries	115,521	115,639	103,462	12,177
Public safety:				
Police:				
Administration	669,063	692,512	682,924	9,588
Youth services	744,238	771,280	745,932	25,348
Investigation	587,803	604,738	581,874	22,864
Patrol	4,140,117	4,294,951	4,095,326	199,625
Training	172,794	181,689	173,464	8,225
Central communications	906,757	911,332	906,410	4,922
911 Call Center	66,903	66,903	71,572	(4,669)
Records	625,596	674,465	696,945	(22,480)
Drug law enforcement	194,657	199,657	192,550	7,107
Fire:				
Administration	623,711	649,164	586,328	62,836
Operations	3,148,942	3,216,165	3,042,948	173,217
On-call	110,926	109,446	104,015	5,431
Fire marshal	108,537	111,712	104,593	7,119
Training	128,660	128,860	120,061	8,799

continued...

CITY OF PORTAGE, MICHIGAN

General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual (continued) Fiscal Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget + / (-)
EXPENDITURES (continued):				
Community development:				
Building services	\$ 638,190	\$ 663,319	\$ 602,911	\$ 60,408
Planning/community development	319,145	330,246	272,652	57,594
Neighborhood services	246,387	256,098	231,495	24,603
Public works:				
Street lighting	370,000	370,000	339,243	30,757
Health and welfare:				
Human services	126,354	141,429	127,516	13,913
Recreation and cultural:				
Senior citizen center	410,497	416,834	375,277	41,557
Recreation	261,104	263,103	255,240	7,863
Parks	1,566,600	1,595,569	1,493,582	101,987
Transportation subsidies	109,267	112,781	112,780	1
Total expenditures	<u>21,750,534</u>	<u>22,838,271</u>	<u>21,184,435</u>	<u>1,653,836</u>
Excess of revenues over expenditures	<u>336,986</u>	<u>(605,186)</u>	<u>1,042,514</u>	<u>1,647,700</u>
OTHER FINANCING SOURCES (USES):				
Transfers in:				
Cemetery Perpetual Care Fund	8,500	8,500	8,500	-
Transfers out:				
Major Street Fund	(270,000)	(36,390)	(36,390)	-
Local Street Fund	<u>(500,000)</u>	<u>(667,905)</u>	<u>(667,905)</u>	-
Total other financing sources and uses	<u>(761,500)</u>	<u>(695,795)</u>	<u>(695,795)</u>	-
Net change in fund balance	(424,514)	(1,300,981)	346,719	1,647,700
Fund balance - beginning	<u>3,729,401</u>	<u>3,729,401</u>	<u>3,729,401</u>	-
Fund balance - ending	<u>\$ 3,304,887</u>	<u>\$ 2,428,420</u>	<u>\$ 4,076,120</u>	<u>\$ 1,647,700</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PORTAGE, MICHIGAN

Major Streets Fund Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual

Fiscal Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget + / (-)
REVENUES				
Intergovernmental:				
State grants	\$ 3,059,900	\$ 3,059,900	\$ 2,814,003	\$ (245,897)
Interest on investments	6,000	6,000	8,567	2,567
Other	-	-	1,062	1,062
Total revenues	<u>3,065,900</u>	<u>3,065,900</u>	<u>2,823,632</u>	<u>(242,268)</u>
EXPENDITURES				
Highways and streets:				
Routine maintenance	644,677	484,196	397,386	86,810
Traffic services	543,038	548,963	466,211	82,752
Winter maintenance	415,038	415,038	362,342	52,696
Administration	764,270	821,315	764,266	57,049
Total expenditures	<u>2,367,023</u>	<u>2,269,512</u>	<u>1,990,205</u>	<u>279,307</u>
Excess (deficiency) of revenues over expenditures	<u>698,877</u>	<u>796,388</u>	<u>833,427</u>	<u>37,039</u>
OTHER FINANCING SOURCES (USES)				
Transfers in:				
General Fund	270,000	36,390	36,390	-
Transfers out:				
Local Street Fund	(200,000)	(247,874)	(247,874)	-
Sewer Fund	(19,000)	(19,000)	(19,000)	-
Capital Improvement Funds	<u>(700,000)</u>	<u>(536,177)</u>	<u>(536,177)</u>	<u>-</u>
Net other financing sources (uses)	<u>(649,000)</u>	<u>(766,661)</u>	<u>(766,661)</u>	<u>-</u>
Net change in fund balances	49,877	29,727	66,766	37,039
Fund balances - beginning	<u>382,853</u>	<u>382,853</u>	<u>382,853</u>	<u>-</u>
Fund balances - ending	<u>\$ 432,730</u>	<u>\$ 412,580</u>	<u>\$ 449,619</u>	<u>\$ 37,039</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PORTAGE, MICHIGAN

Local Streets Fund Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual

Fiscal Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget + / (-)
REVENUES				
Intergovernmental:				
State grants	\$ 862,000	\$ 862,000	\$ 796,597	\$ (65,403)
Interest on investments	1,000	1,000	178	(822)
Other revenue	-	-	2,229	2,229
Total revenues	<u>863,000</u>	<u>863,000</u>	<u>799,004</u>	<u>(63,996)</u>
EXPENDITURES				
Highways and streets:				
Routine maintenance	558,654	726,680	685,146	41,534
Traffic services	75,299	75,299	48,441	26,858
Winter maintenance	426,186	426,186	394,217	31,969
Administration	<u>632,086</u>	<u>688,461</u>	<u>636,633</u>	<u>51,828</u>
Total expenditures	<u>1,692,225</u>	<u>1,916,626</u>	<u>1,764,437</u>	<u>152,189</u>
Excess (deficiency) of revenues over expenditures	<u>(829,225)</u>	<u>(1,053,626)</u>	<u>(965,433)</u>	<u>88,193</u>
OTHER FINANCING SOURCES (USES):				
Transfers in:				
General Fund	500,000	667,905	667,905	-
Major Street Fund	200,000	247,874	247,874	-
Transfers out:				
Sewer Operating Fund	<u>(19,000)</u>	<u>(19,000)</u>	<u>(19,000)</u>	<u>-</u>
Net other financing sources (uses)	<u>681,000</u>	<u>896,779</u>	<u>896,779</u>	<u>-</u>
Net change in fund balances	(148,225)	(156,847)	(68,654)	88,193
Fund balances - beginning	<u>321,473</u>	<u>321,473</u>	<u>321,473</u>	<u>-</u>
Fund balances - ending	<u>\$ 173,248</u>	<u>\$ 164,626</u>	<u>\$ 252,819</u>	<u>\$ 88,193</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PORTAGE, MICHIGAN

Statement of Net Assets Proprietary Funds

June 30, 2005

	Business-type Activities			Governmental Activities
	Sewer Fund	Water Fund	Total	Internal Service Funds
ASSETS				
Current assets:				
Cash and investments	\$ 2,344,225	\$ -	\$ 2,344,225	\$ 990,603
Restricted cash and investments:				
Revenue bonds	100,000	100,000	200,000	-
Accounts receivable	1,098,843	1,009,647	2,108,490	631
Due from other governmental units	2,299	23,495	25,794	-
Inventory	-	-	-	85,270
Prepaid costs	89,129	271,951	361,080	64,651
Current portion of hookup: charges receivable	24,191	14,498	38,689	-
Total current assets	<u>3,658,687</u>	<u>1,419,591</u>	<u>5,078,278</u>	<u>1,141,155</u>
Noncurrent assets:				
Hook-up charges receivable (net of current portion)	113,257	84,363	197,620	-
Total other assets	<u>113,257</u>	<u>84,363</u>	<u>197,620</u>	<u>-</u>
Capital assets:				
Land	51,495	166,450	217,945	22,489
Land improvements	-	90,517	90,517	123,769
Buildings	690,470	399,031	1,089,501	1,750,596
Utility system	66,570,505	49,279,357	115,849,862	-
Machinery and equipment	707,282	451,456	1,158,738	950,256
Vehicles	-	-	-	3,618,560
Less accumulated depreciation	<u>(17,307,043)</u>	<u>(8,110,571)</u>	<u>(25,417,614)</u>	<u>(4,320,101)</u>
Total capital assets (net of accumulated depreciation)	<u>50,712,709</u>	<u>42,276,240</u>	<u>92,988,949</u>	<u>2,145,569</u>
Total assets	<u>54,484,653</u>	<u>43,780,194</u>	<u>98,264,847</u>	<u>3,286,724</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PORTAGE, MICHIGAN

Statement of Net Assets Proprietary Funds (continued) June 30, 2005

	Business-type Activities			Governmental Activities
	Sewer Fund	Water Fund	Total	Internal Service Funds
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 175,038	\$ 123,777	\$ 298,815	\$ 48,471
Accrued compensation	9,348	12,901	22,249	7,773
Checks issued on future deposits	-	2,601,223	2,601,223	-
Workers' compensation	-	-	-	568,630
Accrued interest payable	20,320	87,177	107,497	18,459
Deferred revenue	43,540	12,350	55,890	-
Current portion of long term debt	452,285	1,132,568	1,584,853	362,324
Total current liabilities	<u>700,531</u>	<u>3,969,996</u>	<u>4,670,527</u>	<u>1,005,657</u>
Long term debt:				
Revenue bonds (net of current portion)	2,206,539	13,393,461	15,600,000	-
Limited tax general obligation bonds (net of current portion)	3,520,875	8,383,637	11,904,512	-
Notes payable-net of current portion	-	-	-	96,096
Capitalized lease (net of current portion)	-	-	-	1,558,947
Accrued vacation and sick pay	34,847	34,846	69,693	32,383
Total long term debt	<u>5,762,261</u>	<u>21,811,944</u>	<u>27,574,205</u>	<u>1,687,426</u>
Total liabilities	<u>6,462,792</u>	<u>25,781,940</u>	<u>32,244,732</u>	<u>2,693,083</u>
NET ASSETS				
Invested in capital assets, net of related debt	44,533,007	19,366,574	63,899,581	128,202
Restricted:				
Restricted for revenue bond indentures	100,000	100,000	200,000	-
Unrestricted	<u>3,388,854</u>	<u>(1,468,320)</u>	<u>1,920,534</u>	<u>465,439</u>
Total net assets	<u>\$ 48,021,861</u>	<u>\$ 17,998,254</u>	<u>\$ 66,020,115</u>	<u>\$ 593,641</u>

CITY OF PORTAGE, MICHIGAN

Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Funds

Fiscal Year Ended June 30, 2005

	Business-type Activities			Governmental Activities
	Sewer Fund	Water Fund	Total	Internal Service Funds
Operating revenues:				
Charges for services:				
User charges	\$ 3,902,920	\$ 3,475,713	\$ 7,378,633	\$ 2,126,836
Other	-	63,833	63,833	21,700
Total operating revenues	<u>3,902,920</u>	<u>3,539,546</u>	<u>7,442,466</u>	<u>2,148,536</u>
Operating expenses:				
Operations and maintenance	3,392,217	2,127,254	5,519,471	1,697,942
General and administrative	1,066,608	1,337,543	2,404,151	-
Depreciation	745,250	628,869	1,374,119	416,479
Total operating expenses	<u>5,204,075</u>	<u>4,093,666</u>	<u>9,297,741</u>	<u>2,114,421</u>
Operating income (loss)	<u>(1,301,155)</u>	<u>(554,120)</u>	<u>(1,855,275)</u>	<u>34,115</u>
Nonoperating revenues (expenses):				
Interest on investments	65,477	32,349	97,826	17,543
Interest and fiscal charges	(267,990)	(875,106)	(1,143,096)	(65,137)
Gain on sale of fixed assets	-	-	-	26,355
Total nonoperating revenue (expenses)	<u>(202,513)</u>	<u>(842,757)</u>	<u>(1,045,270)</u>	<u>(21,239)</u>
Income (loss) before contributions and transfers	(1,503,668)	(1,396,877)	(2,900,545)	12,876
Capital contributions:				
Tap fees	529,401	-	529,401	-
Transfers in	128,000	-	128,000	-
Transfers out	(11,000)	(17,000)	(28,000)	-
Change in net assets	<u>(857,267)</u>	<u>(1,413,877)</u>	<u>(2,271,144)</u>	<u>12,876</u>
Total net assets - beginning	<u>48,879,128</u>	<u>19,412,131</u>	<u>68,291,259</u>	<u>580,765</u>
Total net assets - ending	<u>\$ 48,021,861</u>	<u>\$ 17,998,254</u>	<u>\$ 66,020,115</u>	<u>\$ 593,641</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PORTAGE, MICHIGAN

Statement of Cash Flows Proprietary Funds

Fiscal Year Ended June 30, 2005

	Business-type Activities			Governmental Activities
	Sewer Fund	Water Fund	Total	Internal Service Funds
OPERATING ACTIVITIES:				
Cash received from customers	\$ 4,431,215	\$ 3,316,342	\$ 7,747,557	\$ 2,147,905
Cash payments to suppliers	(4,270,304)	(3,893,375)	(8,163,679)	(1,380,867)
Cash payments to employees for services	(366,673)	(464,100)	(830,773)	(327,927)
Cash provided (used) by operating activities	<u>(205,762)</u>	<u>(1,041,133)</u>	<u>(1,246,895)</u>	<u>439,111</u>
NONCAPITAL FINANCING ACTIVITIES:				
Transfer from other funds	128,000	-	128,000	-
Transfer to other funds	<u>(11,000)</u>	<u>(17,000)</u>	<u>(28,000)</u>	<u>-</u>
Cash provided (used) by capital and related financing activities	<u>117,000</u>	<u>(17,000)</u>	<u>100,000</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Issuance of debt	404,400	4,650,600	5,055,000	367,000
Acquisition and construction of capital assets	(760,208)	(2,981,733)	(3,741,941)	(455,745)
Proceeds from sale of capital assets	-	-	-	26,356
Principal paid on bonds, notes and capital lease	(379,247)	203,827	(175,420)	(301,153)
Interest and fiscal charges paid on bonds	<u>(268,307)</u>	<u>(846,910)</u>	<u>(1,115,217)</u>	<u>(65,137)</u>
Cash provided (used) by capital and related financing activities	<u>(1,003,362)</u>	<u>1,025,784</u>	<u>22,422</u>	<u>(428,679)</u>
INVESTING ACTIVITIES:				
Interest on investments	<u>65,477</u>	<u>32,349</u>	<u>97,826</u>	<u>17,543</u>
Cash provided by investing activities	<u>65,477</u>	<u>32,349</u>	<u>97,826</u>	<u>17,543</u>
Net increase (decrease) in cash and cash equivalents	(1,026,647)	-	(1,026,647)	27,975
Cash and cash equivalents - beginning of year	<u>3,470,872</u>	<u>100,000</u>	<u>3,570,872</u>	<u>962,628</u>
Cash and cash equivalents - end of year	<u><u>\$ 2,444,225</u></u>	<u><u>\$ 100,000</u></u>	<u><u>\$ 2,544,225</u></u>	<u><u>\$ 990,603</u></u>
Reconciliation of operating income to cash provided (used) by operating activities:				
Operating income	\$ (1,301,155)	\$ (554,120)	\$ (1,855,275)	\$ 34,115
Tap fee income	529,401	-	529,401	-
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	745,250	628,869	1,374,119	416,479
Decrease in accounts receivable	(12,163)	(226,035)	(238,198)	(631)
(Increase) in inventory	-	-	-	(12,442)
(Increase) in prepaid costs	(63,940)	(260,516)	(324,456)	(7,013)
Increase (decrease) in accounts payable	(117,594)	(124,794)	(242,388)	44,992
Increase in checks issued against future deposits	-	(513,824)	(513,824)	-
(Decrease) in deferred revenue	11,057	2,831	13,888	-
Increase (decrease) in accrued compensation	<u>3,382</u>	<u>6,456</u>	<u>9,838</u>	<u>(36,389)</u>
Cash provided (used) by operating activities	<u><u>\$ (205,762)</u></u>	<u><u>\$ (1,041,133)</u></u>	<u><u>\$ (1,246,895)</u></u>	<u><u>\$ 439,111</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF PORTAGE, MICHIGAN

Statement of Fiduciary Net Assets Fiduciary Funds

June 30, 2005

<u>ASSETS</u>	Pension and Employee Benefit Trust Funds	Agency Funds
Cash and investments	\$ 1,247,930	\$ 650,239
Investments in fixed income securities	3,766,632	-
Accounts receivable	-	543,590
Accrued interest receivable	-	299,764
Total assets	<u>5,014,562</u>	<u>1,493,593</u>
 <u>LIABILITIES</u>		
Checks issued against future deposits	-	324,064
Payroll withholdings payable	-	156
Accrued interest payable	-	299,764
Due to other governments	-	767,268
Deposits	-	102,341
Total liabilities	<u>-</u>	<u>1,493,593</u>
 <u>NET ASSETS</u>		
Restricted for retiree benefits	<u>5,014,562</u>	<u>-</u>
Unrestricted	<u>-</u>	<u>-</u>
Total net assets	<u><u>\$ 5,014,562</u></u>	<u><u>\$ -</u></u>

The notes to the financial statements are an integral part of this statements.

CITY OF PORTAGE, MICHIGAN

Statement of Changes in Fiduciary Net Assets Pension Trust Funds

Fiscal Year Ended June 30, 2005

	Pension and Employee Benefit Trust Funds
ADDITIONS	
Employer contributions	<u>\$ 281,814</u>
Investment income	
Net increase in the fair value of investments	122,381
Interest income	<u>183,868</u>
Net investment earnings	<u>306,249</u>
Total additions	588,063
DEDUCTIONS	
Benefits to plan members	(210,760)
Administrative expenses	<u>(16,004)</u>
Total deductions	<u>(226,764)</u>
Change in net assets	361,299
Net assets - beginning	<u>4,653,263</u>
Net assets - ending	<u><u>\$ 5,014,562</u></u>

The notes to the financial statements are an integral part of this statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Portage was incorporated December 31, 1963, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government, and provides services as authorized by its charter. The City Council is composed of a Mayor and six Councilmembers. The Mayor is elected for a two-year term, and the Councilmembers are elected at large for four-year staggered terms without term limits.

The City engages in a comprehensive range of municipal services including public safety, streets and highways, parks and facility management, and general administrative services. In addition, the City owns and contracts the operation of certain major enterprise activities including water and wastewater utilities. These activities are included in the accompanying financial activities.

The Charter of the City of Portage requires an annual audit by an independent certified public accountant. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting and reporting policies and practices used by the City are described below.

As a local government, the City is exempt from federal income taxes under Internal Revenue Code Sections 115 and 501(a), and from state sales tax.

A. Reporting Entity

As required by generally accepted accounting principles (GAAP), these financial statements present the City (the Primary Government) and its component units, entities for which the City is considered to be financially accountable. The City is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with data of the City. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize that they are legally separate from the primary government. Each discretely presented component unit has a June 30 fiscal year-end.

Blended Component Units:

Building Authority - The Building Authority was established by the City on May 2, 1969 under the authority contained in Act 31, Michigan Public Acts of 1948, as amended in 1969 and 1984. The Act authorized the City to incorporate an authority for the purpose or purposes as follows: to build, acquire, furnish, equip, own, improve, enlarge, lease, operate, and maintain a building or buildings, automobile parking lots or structures, recreational facilities, stadiums and the necessary site or sites therefore, together with appurtenant properties and facilities necessary or convenient for the effective use thereof, for use for any legitimate public purpose of the City of Portage. The governing body of the Authority is known as the "Commission" and consists of the City Manager, City Finance Director and the Chairperson of the Board of the Local Development Finance Authority for the City of Portage. The Building Authority is a blended component unit because, although the governing bodies of the City and the Authority are not similar, the services and benefits provided to entities other than the City are insignificant. That mandates treatment as a blended component unit under GAAP.

Downtown Development Authority - The Downtown Development Authority was established by the City on April 21, 1998 under the authority contained in Act No. 197 of the Public Acts of Michigan of 1975 as amended. The act authorizes the City to provide for the creation of the authority; to define the boundaries of the downtown development district; to correct and prevent deterioration in the central business district; and to authorize the issuance of bonds and other evidences of indebtedness. The taxes collected on the

Note 1 Summary of Significant Accounting Policies, continued

increased taxable value resulting from Downtown Development Authority provided improvements are used to pay debt service. The Downtown Development Authority Board is comprised of the City Manager and eight citizen members appointed by the City Manager, subject to approval by the City Council. The Downtown Development Authority is a blended component unit because, although the governing bodies of the City and the Authority are not similar, the services and benefits provided to entities other than the City are insignificant.

Local Development Finance Authority - The Authority was established by the City on March 20, 1990, under the authority contained in Act 281 of Michigan Public Acts of 1986. The Act authorized the City to designate a specific district within its corporate limits as a Local Development Finance District. The Authority was appointed to promote the growth of specific, legally defined districts and take all steps necessary to create jobs and promote economic growth. The City Manager appoints seven members of the Authority Board of Directors. The other four members of the board of directors are appointed by Kalamazoo County (1), Kalamazoo Valley Community College (1), and Portage Public Schools (2). The Local Development Finance Authority is a blended component unit because, although the governing bodies of the City and the Authority are not similar, the City Manager appoints the voting majority of the governing body and may therefore impose the City's will on the organization. Further, because the City is financially responsible for the Authority, and because the Authority acts only to further the development aims of the consolidated plan of the City, the services and benefits provided to entities other than the City are insignificant.

Discretely Presented Component Units:

Complete financial statements for the discretely presented component units can be obtained from the Department of Community Development, City of Portage, 7900 South Westnedge Avenue, Portage, Michigan 49002.

Economic Development Corporation - The Corporation was established by the City on November 21, 1978, under the authority contained in Act 338, Michigan Public Acts of 1974. The purpose of the Corporation is to promote the economic development of the community. To achieve this purpose, the Corporation issues bonds to private business and industry to finance projects that reduce unemployment and otherwise strengthen and revitalize the local economy. The City Council of the City of Portage appoints the Economic Development Corporation Board of Directors. Because the City appoints the voting majority of the governing body and may therefore impose its will on the organization, it has been presented as component unit. It is not a blended component unit under GAAP because the component unit's governing body is not substantially the same as the primary government, and the benefits provided to entities other than the City are significant.

Tax Increment Finance Authority - The Authority was established by the City on September 3, 1985, under the authority contained in Act 450, Michigan Public Acts of 1981. The Act authorized the City to designate a specific district within its corporate limits as a Tax Increment Finance Authority District. The Authority is appointed to preside over this specific district and it is authorized to formulate plans and secure financing for public improvements, economic development, neighborhood revitalization and historic preservation within this area. These plans must be set forth in a tax increment financing plan which must be approved by the governing body of the City. The City Council of the City of Portage also appoints the Tax Increment Finance Authority Board of Directors. Because the city appoints the voting majority of the governing body and may therefore impose its will on the organization, and because the City is financially responsible for the Tax Increment Financing Authority, it is presented as a component unit. It is not a blended component unit under GAAP because the component unit's governing body is not substantially the same as the primary government, and the benefits provided to entities other than the City are significant. However, since the Authority had no activity during the fiscal year, no data has been presented.

B. Basis of presentation – Government-wide Financial Statements

Government-wide and Fund Financial Statements - The basic financial statements include both government-wide and fund financial statements. The previous financial reporting model emphasized fund types, i.e., the total of all funds of a particular type, such as capital project funds. The new reporting model focus is on either the City as a whole or on major individual funds.

Note 1 Summary of Significant Accounting Policies, continued

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. Internal service fund asset and liability balances that are not eliminated in the statement of net assets are reported in the governmental activities column on the government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net assets includes governmental assets and liabilities previously reported in the general fixed asset account group and the general long term debt group, in addition to infrastructure assets.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Certain indirect costs are included in the program expenses of most business-type activities. Program revenues include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

The fund level statements focus on the governmental proprietary and fiduciary funds. The accounts of the City are organized on the basis of funds. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Major individual governmental funds and major individual enterprise funds are supported as separate columns in the fund financial statements.

The city's fiduciary funds, which have been redefined and narrowed in scope, are presented in the fund financial statements by type (pension, private purpose and agency). By definition, these assets are held for the benefit of a third party and cannot be used to address activities or obligations of the government, and are therefore not included in the government-wide statements. The activities of these funds include administration of the defined benefit pension trust and retiree health care liability fund, as well as the administration of the Cemetery Permanent fund, the Historic Book fund, and the CDBG Program Income fund. Because the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental column of the government-wide financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the flow of economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available. Revenues, other than grants, are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period (defined by the City as collected within 60 days of year-end). Revenues billed under a contractual agreement with another governmental entity, including federal and state grants, are recognized when billed and when all eligibility requirements of the provider have been met and are considered to be available if expected to be collected within one year. Expenditures generally are recorded when a liability is incurred. However, expenditures related to compensated absences or arbitrage are recorded when the liability is matured. Debt service expenditures are recognized when payment is matured. The reported fund balance of governmental funds is considered a measure of available spendable resources.

Property taxes, franchise fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Note 1 Summary of Significant Accounting Policies, continued

The City reports the following major governmental funds:

General Fund: The general fund is the primary operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. It includes the following activities: public safety, streets and highways, parks and facility management, and general government.

Special Assessment Fund: Although no longer required as an individual governmental fund-type after GASB Statement No. 6, *Accounting and Reporting for Special Assessments*, the City utilizes special assessments under its Charter to balance the cost of certain public improvements between private benefit and public burden, and chooses to emphasize the difference between special assessment debt and other debt issues by continuing to maintain this fund type. The public improvements subject to special assessment primarily benefit a particular property owner or group of property owners, ultimately increasing the fair market value of their property. The property owners pay the assessment over a 10-year term for street improvements, and over a 20-year term for water and sewer improvements, unless sooner paid. The activities performed by the City with regard to Special Assessments include organizing special assessment districts, overseeing the performance of the project itself, and accounting for and collecting the assessments to pay any debt incurred to finance the project.

Capital Improvement Program (CIP) Fund: The City assesses a dedicated tax millage to support a balanced capital investment program. The program constructs, improves and maintains the highest level of public infrastructure and community resources. The fund accounts for the collection of dedicated tax revenues, and for financing the construction of all City capital projects in excess of \$10,000. These projects include creation of or improvements to streets, parks, city buildings, and other city facilities not owned or used by the Water and Sewer utility enterprises.

Major Streets Fund: This fund accounts for the maintenance of major streets, as certified by the state highway commissioner, and trunklines within the City. Primary funding is from special revenues provisions of Act 51 of 1951, as amended, of the state of Michigan. This fund does not meet the criteria of a major fund as defined by GASB, but the state of Michigan requires that it be presented as a major fund.

Local Streets Fund: This fund accounts for the maintenance of all local streets, as certified by the state highway commissioner. It is funded by special revenues from provisions of Act 51 of 1951, as amended, of the state of Michigan. This fund does not meet the criteria of a major fund as defined by GASB, but the state of Michigan requires that it be presented as a major fund.

Proprietary and fiduciary fund financial statements are accounted for on the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations, such as providing water and wastewater services. Other revenues or expenses are non-operating items.

The City reports the following major enterprise funds, which are also considered proprietary funds:

Sewer Fund - Accounts for the activities of the City-owned wastewater utility.

Water Fund - Accounts for the activities of the City-owned water utility.

In addition, the City reports the following non-major governmental funds:

Special revenue funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes, including grant funds. These include cultural activities, cable television, Community Development Block Grant (CDBG), Local Development Finance Authority, West Lake weed management, curbside recycling, and the leaf pickup fund.

Debt Service Funds account for resources accumulated and payments made for general long-term debt.

Note 1 Summary of Significant Accounting Policies, continued

Permanent Funds account for resources that are legally restricted to the extent that restrictions apply as to whether only earnings and not principal may be used for the limited and specific purposes that support the City's programs. Permanent funds account for the cemetery perpetual fund.

The City reports the following proprietary and fiduciary funds:

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges. The City has elected to follow GASB statements issued after November 30, 1989, rather than statements issued by the Financial Accounting Standards Board (FASB), in accordance with GASB Statement No. 20. The Sewer and Water funds are the City's only enterprise funds. The City reports no nonmajor enterprise funds.

Internal Service Funds account for the financing of goods or services provided by one City department or agency to other City departments or agencies or to other governmental units on a cost-reimbursement basis. These activities include, but are not limited to, fleet services. As a general rule, the effect of interfund activity has been eliminated for government-wide reporting purposes. These funds are presented on a combined basis in the Statement of Net Assets – Proprietary Funds in the Internal Service Funds column, and in detail in the Combining Statements of Net Assets – Internal Service Funds. These funds include the equipment and insurance funds.

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations or other governments. Fiduciary funds are not included in the government-wide financial statements. The fiduciary funds of the City include the pension trust fund, retiree health care funds, Cemetery Permanent fund, Historic Book fund, and CDBG Program Income fund. Trust Funds are accounted for in essentially the same manner as governmental funds.

Agency funds account for net assets held on behalf of others, are purely custodial (assets equal liabilities) and do not involve the measurement of results of operations.

D. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- (a) Prior to April 15, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The proposed operating budget includes proposed expenditures and the means of financing them, and is adopted at the "activity" level with the exception of the capital improvement fund, which is adopted at the "project" level.
- (b) Public hearings are conducted to obtain taxpayer comments.
- (c) The budget is legally enacted through passage of an ordinance no later than the second Monday in June.

Annual budgets are legally adopted for the general fund, certain special revenue funds and debt service funds. Annual budgets are adopted for enterprise, internal service, cemetery perpetual fund, and CDBG program income funds, although they are not legally required. Multi-year budgets are adopted for capital projects and grant funds, where appropriations remain authorized for the life of the project, irrespective of fiscal year. Expenditures are appropriated on a modified accrual basis, except that commitments related to purchase orders are treated as expenditures in the year of commitment.

Formal budgetary control is employed during the year at the fund and department level as a management control device for annually budgeted funds.

Budgets are modified throughout the year. The City Manager is authorized to transfer appropriation balances within a fund and department of the City. The City Council must approve amendments to the budget and transfers of appropriations from one fund to another, or that would cause a change in fund balance. The original and final budgets for the General Fund are reported in the Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual. Unencumbered appropriations for annual budgets lapse at fiscal year-end.

Note 1 Summary of Significant Accounting Policies, continued

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. Unencumbered appropriations lapse at year-end in the General Fund. Appropriations which are encumbered at year-end are carried forward into the following year's appropriation, with the approval of City Council, to allow liquidation of the encumbrance.

E. Financial Statement Elements

Pooled Investments and Cash Deposit Balances - Cash balances of all City funds (except for certain funds having non-pooled investments) are pooled and invested. Investments purchased with pooled cash, consisting primarily of high-grade commercial paper and U.S. agency obligations, are stated at fair value. Interest earned on investments purchased with pooled cash is allocated monthly to each participating fund based upon the fund's average daily balance. Funds that incur a negative balance in pooled cash and investments are not allocated interest earnings nor charged interest expense.

Investments - Certain investments are required to be reported at fair value, based upon quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments at fair value as of June 30, 2005.

Accounts Receivable - Balances of accounts receivable, reported on the government-wide statement of net assets, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivable balances as of June 30, 2005:

	<u>Charges for Services</u>	<u>Special Assessments</u>	<u>Other Governments</u>	<u>Total</u>
Governmental Activities				
General Fund	\$ 1,602,088	\$ 4,966,920	\$ 1,574,672	\$ 8,143,680
Non-major government funds	-	-	91,569	91,569
Internal service funds	631	-	-	631
Total	<u>\$ 1,602,719</u>	<u>\$ 4,966,920</u>	<u>\$ 1,666,241</u>	<u>\$ 8,235,880</u>

There is no provision for an allowance for doubtful accounts because Kalamazoo County guarantees payment of real property taxes, and the Ordinances of the City provide for the creation of durable tax liens for all taxes, assessments and charges putting the City in the position of eventual 100% collection.

Business-type activities are primarily comprised of charges for services.

Elimination of Internal Activities - The elimination of internal service fund activity is needed in order to eliminate duplicate activity in making the transition from fund level financial statements to the government-wide financial statements. In addition, the elimination of internal service fund activity requires the city to "look back" and adjust the internal service funds' internal charges. A positive change in net assets derived from internal service fund activity results in a pro rata reduction in the charges made to the participatory funds. A deficit change in net assets of internal service funds requires a pro rata increase in the amounts charged to the participatory funds.

Internal Balances - In the government-wide statement of net assets, internal balances are the receivables and payables between the governmental and business-type activities. There were no internal balances as of June 30, 2005.

Note 1 Summary of Significant Accounting Policies, continued

Interfund Activities - In the government-wide statement of activities, the effect of interfund activity has generally been removed from the statements. Exceptions include the charge back of services, such as utilities or vehicle maintenance, and charges for central administrative costs. Elimination of these charges would distort the direct costs and program revenues of the various functions reported. The City recovers indirect costs that are incurred through a plan of allocation utilizing actual costs. These amounts are eliminated in the government wide statement of activities.

Interfund Receivables/Payables - During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivable and payable balances are classified as "due from other funds" or "due to other funds" on the fund-level statements when they are expected to be liquidated within one year. If receivable or payable balances are expected to be liquidated after one year, they are classified as "advances to other funds" or "advances from other funds." No interfund receivables existed as of June 30, 2005.

Inventories - Inventories are valued at the lower of cost (first-in - first-out) or market. Inventories for all funds use the consumption method and expenditures are recorded when issued. The enterprise funds hold the only inventory maintained by the City.

Prepaid expenses and other assets - The governmental activities statement of net assets includes prepaid expenses and other assets. Fund balance is reserved for prepaid expenses; fund balance is not reserved for other assets.

Restricted assets - Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

The balance of restricted asset accounts in the enterprise funds are as follows:

	<u>Business-Type Activities</u>		Total Restricted Assets
	Sewer	Water	
Revenue bond indentures	\$ 100,000	\$ 100,000	\$ 200,000

Capital assets - Capital assets, which include land, facilities and improvements, machinery and equipment and infrastructure assets, are reported in the applicable governmental or business-type activity columns of the government-wide statement of net assets, and related depreciation is allocated to programs in the statement of activities. Capital assets are defined as assets with an initial individual cost of \$5,000 or more and an estimated useful life of greater than one year. Assets purchased or constructed are capitalized at historical cost. Contributed capital assets are recorded at estimated fair market value at the time of receipt, or at historical cost if historical cost is available. Capital outlay (asset purchases that do not meet the definition of a capital asset) is recorded as an expenditure in the general fund and other governmental funds, and as an asset in the government-wide financial statements and proprietary funds. Maintenance and repairs are charged to operations as incurred, and improvements and betterments that extend the useful lives of capital assets are capitalized. The City has adopted and implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. No material impairments requiring disclosure or restatement of previously issued financial statements existed at the adoption date. No material impairments existed as of the statement date.

The City obtains public domain capital assets (infrastructure) through capital improvement project (CIP) construction, or through annexation or developer contribution. Infrastructure consists of certain improvements other than buildings, including streets and roads, bridges, pedestrian facilities, drainage systems and traffic signal systems.

Interest is not capitalized on governmental capital assets. For enterprise funds, interest paid on long-term debt in the enterprise funds is capitalized when it can be attributed to a specific project and when it materially exceeds the interest revenue generated by bond proceeds issued to fund the project.

Note 1 Summary of Significant Accounting Policies, continued

Capital assets are depreciated using the straight-line method over the following estimated useful lives (in years):

Assets	Governmental Activities ⁽¹⁾	Business-Type Activities	
		Sewer	Water
Buildings	40	40	40
Equipment	5	5	5
Vehicles	5	5	5
Improvements to grounds	20	20	20
Water and wastewater systems	-	100	100
Infrastructure			
Streets and roads	20	-	-
Retaining walls	30	-	-
Bridges	50	-	-
Drainage systems	50	-	-
Pedestrian facilities	20	-	-
Traffic signals	20	-	-

⁽¹⁾ Includes internal service funds

Depreciation of assets is classified by functional components. The City considers land to be inexhaustible; and therefore, these assets are reported as non-depreciable. Unallocated depreciation reported in the government-wide statement of activities consists of depreciation of infrastructure assets \$7,022,603.

In the government-wide and proprietary fund statements, the City recognizes a gain or loss on the disposal of assets when it retires or otherwise disposes of capital assets.

Deferred Charges or Credits - Deferred charges represent expenditure for expense prepayments that are distinguished from prepaid expenses on the basis of the time over which they will be recognized as period expenses. That is, they involve a longer period of time than prepaid expenses do. Deferred credits represent revenue received at fiscal year-end prior to the earning process being complete.

Long Term Debt - The debt service for general obligation bonds and other general obligation debt, including loans, issued to fund general government capital projects is paid from tax revenues, interfund transfers and intergovernmental revenues. Such general obligation debt is reported in the government-wide statements under governmental activities.

The debt service for general obligation bonds and other general obligation debt issued to fund proprietary fund capital projects is normally paid from the net revenues of the applicable proprietary fund, although such debt will be repaid from tax revenues if necessary. Such general obligation debt is shown as a specific liability of the applicable proprietary fund, which is appropriate under generally accepted accounting principals and in view of the expectation that the proprietary fund will provide resources to service the debt.

Revenue bonds that have been issued to finance capital projects of certain enterprise funds are to be repaid from net revenues of these funds. Such debt is recorded in the funds. Operating revenues and interest income that are used as security for revenue bonds are reported separately from other revenues.

The City defers and amortizes gains or losses realized by proprietary funds on refundings of debt and for governmental activities in the government-wide financial statements, and reports both the new debt liability and the related deferred amount on the funds' balance sheets. The City recognizes gains or losses on debt defeasance when funds from current operations are used.

Operating Revenues - Revenues are recorded net of allowances in the government-wide and proprietary fund-level statements. No allowances were necessary for the year ended June 30, 2005.

Note 1 Summary of Significant Accounting Policies, continued

Interfund Revenues, Expenses and Transfers - Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved, such as billing for utility services. Transactions between funds that constitute reimbursements for expenditures or expenses are recorded as expenditures or expenses in the fund that is reimbursed. Transfers between funds are reported in the operations of governmental and proprietary funds.

Intergovernmental Revenue, Receivables and Liabilities - Intergovernmental revenues and related receivables arise primarily through funding received from federal grants and state grants. These revenues and receivables are earned through expenditure of money for grant purposes, or through consolidating settlements while acting as tax collection agency for other local government units. Intergovernmental liabilities arise primarily from funds held in an agency capacity for other local government units.

Federal and State Grants, Entitlements and Shared Revenues - Grants, entitlements, and shared revenues may be accounted for within any City fund. The purpose and requirements of each grant, entitlement, or shared revenue are analyzed to determine the appropriate fund statement and revenue category in which to report the related transactions. Grants, entitlements and shared revenues received for activities normally recorded in a particular fund may be accounted for in that fund, provided that applicable legal restrictions can be satisfied.

Revenues received for activities normally recorded in other governmental funds are accounted for within the nonmajor governmental fund groupings: federal grant funds, state grant funds, and other special revenue funds. Capital grants restricted for capital acquisition or construction, other than those associated with proprietary type funds, are accounted for in the applicable capital projects funds. Revenues received for operating activities of proprietary funds or revenues that may be used for either operations or capital expenditures at the discretion of the City are recognized in the applicable proprietary fund.

Restricted Resources - When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

Reservations of Fund Equity - Reservation of fund balances of the governmental funds indicate that portion of fund equity which is not available for appropriation for expenditure or is legally restricted by outside parties for use for a specific purpose. Designations of fund balance are the representations of management for the utilization of resources in future periods. Reserves for police safety training are legally restricted to those purposes by the grantor.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the city considers cash and cash equivalents to consist of currency on hand, cash held by trustee, demand deposits with banks, and all amounts included in pooled investments and cash accounts.

Pension Costs - It is the policy of the City to fund pension costs annually. Pension costs are composed of normal cost and, where applicable, amortization of unfunded actuarial accrued liability and of unfunded prior service cost (see defined benefit pension plan information in Note 11, and defined contribution pension plan information in Note 12).

Risk Management - The City is exposed to employee-related risks for workers' compensation, as well as to various risks of loss related to torts, including medical malpractice; theft of, damage to, or destruction of assets, errors and omissions, and natural disasters. The City continues to be self-insured for liabilities for workers' compensation claims with stop-loss provisions in place (Note 10.b.).

The City participates in a risk pool administered by the Michigan Municipal Risk Management Association for coverage to insure against property loss or damage, commercial crime, and fidelity bonds. The City complies with GASB Statement No. 10, *Accounting and reporting for Risk Financing and Related Insurance Issues* (See Note 10.b.).

Note 1 Summary of Significant Accounting Policies, concluded

F. Comparative Data

Governments are required to present comparative data only in connection with Management's Discussion and Analysis (MD&A). They may also present comparative data on the government-wide statement of activities. Comparative data is now presented as part of the government-wide statements and the MD&A.

G. Use of Estimates

The preparation of financial statements in conformity with accounting principals generally accepted in the United State of America requires management to make estimates and assumptions that affect the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

H. Compensated Absences

City employees are granted compensated absences for vacation and sick leave in varying amounts based on length of service. It is the City's policy to permit employees to accumulate a limited amount of earned but unused annual and sick leave benefits, which will be utilized in future periods or will be paid to employees upon separation from City service. The estimated long-term liability for vacation and sick pay which will be paid with future Governmental-type operating resources is recorded as general long term debt. The total estimated long-term cost of employees' accumulated vacation and sick leave was approximately \$1,736,447 at June 30, 2005.

I. Post-Retirement Benefits

In addition to the pension benefits described in Notes 11, 12, and 13 the City provides post-retirement health care benefits under the varying terms of a number of separate union contracts, and under the employee benefit program of the City as it has existed over the years when the entitlement occurred. Currently 19 retirees meet the applicable eligibility requirements. Expenditures for post-retirement health care benefits are recognized on a pay-as-you-go basis as the premiums for coverage are paid. During the year ended June 30, 2005, expenditures of approximately \$122,600 were recognized for post-retirement health insurance premiums. Contractual payments were made directly to certain unions that negotiated to assume full responsibility for future health care benefit obligations of their members. Annual increases in premium rates for this benefit sector in the several plans the City is obligated to provide have ranged from 6% to 29% over the past several years.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Schedules that show the adjustments required to take the figures in the government-wide statements to those in the governmental fund statement presentation immediately follow those statements.

3. POOLED INVESTMENTS AND CASH

The following summarizes the amounts of the pooled investments and cash by fund at June 30, 2005:

Pooled Investments and Cash				
	Unrestricted, invested	Restricted, invested	Other cash	Total
General fund	\$3,720,233	-	\$ 4,429	\$3,724,662
Special assessments fund	2,998,379	-	-	2,998,379
Capital improvement fund	2,579,140	-	50,420	2,629,560
Local streets fund	146,426	-	-	146,426
Non-major governmental funds	2,069,276	-	25,400	2,094,676
Sewer fund	2,278,010	100,000	66,215	2,444,225
Water fund	-	100,000	-	100,000
Totals	<u>13,791,464</u>	<u>200,000</u>	<u>146,464</u>	<u>14,137,928</u>
Total invested cash (book value)		<u>13,991,464</u>		

Other cash includes retainage held in escrow, petty cash, and deposits held in escrow. The Pension and Employee Benefit Trust Funds' cash of \$1,247,930, and investments in fixed income securities of \$3,766,632, along with \$650,239 in Agency fund cash, are excluded from the above as the result of not being pooled investments and cash. Component unit cash as of June 30, 2005, totaled \$17,868.

4. DEPOSITS AND INVESTMENTS

The City maintains a pool of cash and investments in which each fund participates on a dollar equivalent and daily transaction basis. Interest is distributed monthly based on average monthly balances. A "zero balance account" mechanism provides for overnight sweeps of deposits made to the City depository account, and the outstanding balance in the accounts payable checking account, resulting in an instantaneous transfer to the investment account. Thus, the majority of funds in the City's operating accounts are invested at all times.

A. Investments

The City's deposits and investments are invested pursuant to the City of Portage investment policy. The objective of the policy is, in order of priority, preservation of capital, liquidity and yield. The policy addresses the soundness of financial institutions in which the City will deposit funds, diversification of the portfolio composition, and the permitted types of investment instruments. The terms of policy are informed by the provisions of Chapter 129, Public Funds, of the Michigan Compiled Laws and permit investment in:

1. Certificates of deposit issued by banks located in Michigan;
2. U.S. Treasury and agency obligations;
3. Commercial paper at the two highest rating levels;
4. Domestic bankers acceptances
5. U.S. Treasury or agency backed repurchase agreements, and
6. PA 20 qualified local government investment trusts and mutual funds

Further, the City assumes that its callable investments will not be called, and that all investments will be held to maturity.

The City participates in a local government investment trust, CLASS, managed by MBIA, Municipal Investors Service Corporation. Overnight operating account balances are invested in the Comerica Bank "J" fund. The City owns 1:1 dollar interests in each fund. Both pools are composed of investment vehicles that are permissible under state of Michigan law for municipal government, and would qualify for direct investment by the City. The fair value of the City's position in these funds is equivalent to the carrying value, and, as such, is included in the cash and pooled funds category.

Pension trust fund investments, a fiduciary fund not included in the government-wide statements, must conform to the limits and standards set forth in Michigan Public Act 55 of the Public Acts of 1982, as amended, and Public Act 252 of 1988. Its' corpus is held by, and its' assets are managed by Principal Financial Group, Inc.

The component unit's funds are included in the City's pooled cash funds, and partake ratably in the City's investment portfolio.

As of June 30, 2005, the City had the following investments:

Investment Type	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificate of Deposit	\$ 50,581	0.0050
U.S. Government Agencies	7,928,294	1.1978
Commercial Paper	3,955,497	0.1706
Investment Pools	2,348,661	0.0027
Total Fair Value	\$ 14,283,033	
Portfolio weighted average maturity		1.3761

Fair value exceeds book value of cash and investments due to market adjustments (accrued interest) of \$272,921 and outstanding cash items of \$18,648. Adjusted fair value by the total (\$291,569) agrees to invested book value of \$13,991,464.

Interest Rate Risk. In accordance with its investment policy, the city minimizes investment rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The investment portfolio is structured so that securities mature to meet known cash requirements for ongoing operations, and the maturity of investments is limited to less than six years.

Credit Risk. The investment policy limits investments in commercial paper to those rated in the two highest classifications by nationally recognized statistical ratings organizations. As of June 30, 2005, investments in commercial paper were rated A1 by Standard and Poor's, F-1 by Fitch Ratings, and P-1 by Moodys Investors Service. As of June 30, 2005, the investments in the MBIA CLASS and the Comerica Bank "J" Fund investment pools were not rated.

Concentration of Credit Risk. The City minimizes the concentration of credit risk, which is the risk of loss attributed to the magnitude of investment in a single issuer. The investment policy requires diversification of the portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The investment policy criteria relating to the various forms of credit risk are as follows:

Investment type	Type, % of Portfolio Limit	Issuer/Broker, % of Portfolio Limit
Certificate of Deposit	may not exceed 60%	may not exceed 40%
U.S. Treasury and Agency	no limit	may not exceed 40% with one broker
Commercial Paper	may not exceed 70%	may not exceed 15%
Bankers Acceptances	no limit	may not exceed 40% with one bank
Repurchase Agreements	may not exceed 10%	may not exceed 40% with one bank
Mutual Fund/Local Govt Investment Pools	may not exceed 80%	may not exceed 40%

Custodial Credit Risk - Investments. For an investment, this is the risk that, in the event of a failure of the counterparty, the City will not be able to recover the value of it's investments or collateral securities that are in the possession of an outside party. The City has a zero custodial credit risk exposure as of June 30, 2005, because all securities are registered, and are held by brokerage firms that are also the counterparty for these investments.

Foreign Currency Risk. The City is not authorized to participate in investments that have this type of risk.

B. Deposits

Primary Government

At year end, the uninvested carrying amount of the City deposits was \$50,000, the total book balance in the operating and overnight governmental cash investment fund was \$1,775,792 and the bank account balance was \$2,293,758. Compensating balances of \$25,000 are held in the depository account and the accounts payable checking account, making the overnight sum held by the bank \$50,000. The \$50,000 is within the \$150,000 coverage limit for FDIC insurance. The overnight sweep is invested in a governmental cash investment fund that meets the criteria for local government investment pools outlined in Public Act 367. Funds deposited in accordance with the requirements of Public Act 367 of 1982 are considered fully secured.

Component Units

The carrying value of deposits for the Economic Development Corporation was \$17,868. The Tax Increment Financing Authority is presently inactive, and has a zero deposit balance.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2005, none of the City's deposits were exposed to custodial credit risk because the level of cash deposits are fully covered by FDIC insurance.

5. PROPERTY TAXES

Property taxes are levied and attach as an enforceable lien on property as of August 1, and are due on September 14 of each year. Real property taxes remaining unpaid on the following March 1 are turned over to the County Treasurer for collection and the City is paid in full for the taxes by the County. Therefore, amounts recorded as delinquent tax payments receivable represent only unpaid personal property taxes.

The City bills and collects its own property taxes and also collects taxes for the state education fund, district library, Kalamazoo county, community college, regional programs, and the school districts contained within the City corporate limits. Collection and remittance of the state education fund, district library, Kalamazoo county, community college, regional programs, and the school districts taxes are accounted for in the current year tax collection and in the trust and agency Funds. City property tax revenues are recognized when levied to the extent that they result in current receivables.

6. CAPITAL ASSETS AND INFRASTRUCTURE

Capital assets activity for the year ended June 30, 2005 was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 6,419,977	\$1,185,617	\$ -	\$ 7,605,594
Rights-of-way	4,379,048	-	-	4,379,048
Total capital assets, not being depreciated	10,799,025	1,185,617	-	11,984,642
Capital assets, being depreciated				
Land improvements	5,645,320	659,019	-	6,304,339
Buildings	11,376,852	1,957,870	-	13,334,722
Machinery and equipment	5,507,598	453,704	(70,359)	5,890,943
Vehicles	7,228,657	1,685,855	(1,186,932)	7,727,580
Infrastructure	170,826,461	2,948,785	-	173,775,246
Total capital assets, being depreciated	200,584,888	7,705,233	(1,257,291)	207,032,830
Less accumulated depreciation for:				
Land Improvements	(2,409,653)	(274,104)	-	(2,683,757)
Buildings	(3,556,281)	(319,713)	738	(3,875,256)
Machinery and equipment	(4,293,994)	(539,369)	143,709	(4,689,654)
Vehicles	(5,058,675)	(902,070)	1,067,234	(4,893,511)
Infrastructure	(91,774,893)	(7,022,880)	-	(98,797,773)
Total accumulated depreciation	(107,093,496)	(9,058,136)	1,211,681	(114,939,951)
Total capital assets, being depreciated, net	93,491,392	(1,352,903)	(45,610)	92,092,879
Governmental activities capital assets, net	\$104,290,417	\$ (167,286)	\$ (45,610)	\$ 104,077,521

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 217,945	\$ -	\$ -	\$ 217,945
Total capital assets, not being depreciated	217,945	-	-	217,945
Capital assets, being depreciated				
Land Improvements	90,517	-	-	90,517
Buildings	1,089,501	-	-	1,089,501
Machinery and equipment	1,158,738	-	-	1,158,738
Water and sewer system	112,107,921	3,741,941	-	115,849,862
Total capital assets, being depreciated	114,446,677	3,741,941	-	118,188,618
Less accumulated depreciation for:				
Land improvements	(32,266)	(6,925)	-	(39,191)
Buildings	(555,536)	(34,909)	-	(590,445)
Machinery and equipment	(839,479)	(60,561)	-	(900,040)
Water and sewer system	(22,616,214)	(1,271,724)	-	(23,887,938)
Total accumulated depreciation	(24,043,495)	(1,374,119)	-	(25,417,614)
Total capital assets, being depreciated, net	90,403,182	2,367,822	-	92,771,004
Business-type activities capital assets, net	\$ 90,621,127	\$ 2,367,822	\$ -	\$ 92,988,949

Depreciation expense was charged to functions / programs of the primary government as follows:

Governmental activities:	
General government	\$ 709,342
Public safety	889,546
Streets and highways	17,969
Health & welfare	18,511
Parks/facility mgmt.	400,165
Unallocated depreciation	7,022,603
Total depreciation expense – governmental activities	<u>\$ 9,058,136</u>
Business-type activities:	
Sewer	\$ 745,250
Water	628,869
Total depreciation expense – business-type activities	<u>\$ 1,374,119</u>
The component unit has no capital assets.	

7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivables and payables at June 30, 2005 totaled \$0.00.

Transfers between funds for the year ended June 30, 2005, were as follows:

Transfers Out:	Transfers In:							Total
	General Fund	Major Streets	Local Streets	Debt Service	Capital Improvement	Sewer	Internal Service	
General Fund	-	36,390	667,905	-	-	-	-	704,295
Major Streets	-	-	247,874	-	536,177	19,000	-	803,051
Local Streets	-	-	-	-	-	19,000	-	19,000
Capital Improvement	-	-	-	4,024,247	(328,218)	90,000	367,000	4,153,029
Nonmajor								
Governmental	8,500	-	-	19,453	4,636	-	-	32,589
Sewer Operating	-	-	-	-	11,000	-	-	11,000
Water Operating	-	-	-	-	17,000	-	-	17,000
Total	8,500	36,390	915,779	4,043,700	240,595	128,000	367,000	5,739,964

Interfund transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, 2) move unrestricted general fund revenues to finance various programs that the government must account for in other funds, 3) transfer bond proceeds from the issuing fund to internal service funds to fund asset purchases, 4) provide remuneration to funds providing common services. Total Transfers In and Transfers Out for all Governmental Funds differ due to transfer of \$367,000 in bond proceeds to the Equipment Fund and \$100,000 in bond proceeds to the Sewer Operating Fund.

8. DEBT AND NON-DEBT LIABILITIES

General Long Term Debt - On June 30, 2005, the City issued \$7,845,000 in Capital Improvement Refunding Bonds, Series 2005 with an average interest rate of 3.8% in order to advance refund seven outstanding utility revenue bonds (Series 1992 through Series 2000) with an outstanding principal balance of \$7,525,000 and interest rates ranging between 4.36% and 6%. The net proceeds of \$7,674,406 (after payment of \$170,594 in underwriting fees, insurance, and other issuance costs) plus an additional \$90,423 of original issue premium were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the seven bonds. As a result, the bonds are considered to be defeased, the liability for the seven bonds have been removed from the government-wide statement of net assets and replaced with the 2005 Series debt.

The advance refunding of the seven bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of \$320,000. This difference, reported in the accompanying financial statements as bond issuance costs is being charged to operations through the fiscal year 2020/2021 using the straight-line method. The City completed the advance refunding to reduce its total debt service payments over the next 16 years by \$542,048, and to obtain an economic gain (the difference between the present value of the old and the new debt service payments) of \$379,680.

Debt Issues:

General Obligation bonds

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>
Governmental activities	1.50%-6.75%	\$ 2,912,735
Business-type activities	1.50%-6.75%	4,202,265
		<u>\$ 7,115,000</u>

Annual debt service requirements to maturity for general obligation bonds:

Year ending	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 370,148	\$ 109,140	\$ 459,853	\$ 183,191
2007	380,318	94,756	464,682	163,453
2008	302,728	81,488	462,271	142,945
2009	303,054	69,568	426,946	122,905
2010	256,841	58,635	373,159	104,894
2011-2015	799,076	179,860	1,280,924	316,670
2016-2020	354,050	75,110	585,950	97,141
2021-2025	146,520	10,055	148,480	9,643

Capital Improvement Project bonds

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>
Governmental activities	2.00%-4.60%	\$ 17,642,900
Business-type activities	2.00%-4.60%	8,732,100
		<u>\$ 26,375,000</u>

Annual debt service requirements to maturity for Capital Improvement Project bonds:

Year ending	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 755,000	\$ 485,166	\$ 570,000	\$ 287,802
2007	1,253,889	589,771	636,111	285,425
2008	1,188,888	555,405	661,112	265,588
2009	1,188,888	521,514	656,112	245,076
2010	1,178,354	485,198	646,646	224,422
2011-2015	5,880,854	1,840,349	3,159,146	787,920
2016-2020	3,837,426	871,904	2,102,574	240,819
2021-2025	2,078,268	289,298	266,732	27,375
2026-2030	281,333	6,154	33,667	737

Building Authority bonds

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>
Governmental activities	3.65%-5.60%	\$ 14,075,000

Annual debt service requirements to maturity for Building Authority bonds:

Year ending	<u>Governmental Activities</u>	
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 695,000	\$ 560,791
2007	770,000	644,513
2008	810,000	608,093
2009	860,000	568,563
2010	910,000	526,016
2011-2015	4,970,000	1,917,181
2016-2020	4,015,000	725,074
2021-2025	1,045,000	73,125

Downtown Development Authority bonds

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>
Governmental activities	3.00%-5.25%	\$ 5,840,000

Annual debt service requirements to maturity for Downtown Development Authority bonds:

Year ending	<u>Governmental Activities</u>	
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 35,000	\$ 207,193
2007	100,000	266,728
2008	120,000	262,768
2009	125,000	258,286
2010	140,000	253,371
2011-2015	1,055,000	1,156,589
2016-2020	2,025,000	824,579
2021-2025	1,750,000	314,188
2026-2030	490,000	38,850

Local Development Finance Authority bonds

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>
Governmental activities	6.10%-6.35%	\$ 3,150,000

Annual debt service requirements to maturity for Local Development Finance Authority bonds:

Year ending	<u>Governmental Activities</u>	
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	-	98,175
2007	-	196,350
2008	40,000	196,350
2009	40,000	193,910
2010	40,000	191,470
2011-2015	230,000	918,920
2016-2020	800,000	783,500
2021-2025	1,000,000	506,000
2026-2030	1,000,000	190,500

Motor Vehicle Highway bonds

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>
Governmental activities	3.50%-5.80%	\$ 13,530,000

Annual debt service requirements to maturity for Motor Vehicle Highway bonds:

Year ending	<u>Governmental Activities</u>	
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 750,000	\$ 608,612
2007	855,000	605,965
2008	835,000	568,625
2009	865,000	530,503
2010	845,000	491,456
2011-2015	4,670,000	1,810,356
2016-2020	4,010,000	664,532
2021-2025	700,000	28,850

Special Assessment debt with government commitment

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>
Water main, sewer main, road improvements	1.50%-7.20%	\$ 8,054,000

Annual debt service requirements to maturity for special assessment bonds:

Year ending	<u>Governmental Activities</u>	
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 919,000	\$ 322,855
2007	900,000	286,542
2008	870,000	251,145
2009	760,000	218,483
2010	745,000	187,729
2011-2015	2,525,000	554,026
2016-2020	985,000	190,727
2021-2025	350,000	24,613

Revenue bonds

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>
Water main and sewer main construction	2.00%-7.00%	\$16,155,000

Annual debt service requirements to maturity for revenue bonds:

Year ending	<u>Business-type Activities</u>	
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 555,000	\$ 649,959
2007	630,000	629,878
2008	650,000	607,953
2009	670,000	584,770
2010	740,000	559,544
2011-2015	3,495,000	2,379,247
2016-2020	4,075,000	1,651,953
2021-2025	4,840,000	618,800
2026-2030	500,000	11,250

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Bonds payable:					
General obligation bonds	\$ 3,280,215	\$ -	\$ (367,480)	\$ 2,912,735	\$ 370,148
Special Assessment debt					
With government					
Commitment	8,314,000	650,000	(910,000)	8,054,000	919,000
Building Authority bonds	14,745,000	-	(670,000)	14,075,000	695,000
Motor Vehicle Highway bonds	14,230,000	-	(700,000)	13,530,000	750,000
Downtown Development					
Authority bonds	5,865,000	-	(25,000)	5,840,000	35,000
Local Development Finance					
Authority bonds	3,390,000	-	(240,000)	3,150,000	-
CIP Bonds	10,985,000	7,412,900	(755,000)	17,642,900	755,000
Total bonds payable	60,809,215	8,062,900	(3,667,480)	65,204,635	3,524,148
Compensated absences	1,764,516	1,023,046	(1,051,115)	1,736,447	1,051,115
Retiree health care and pension	749,724	361,326	-	1,111,050	-
Governmental activity					
Long term liabilities	<u>\$ 63,323,455</u>	<u>\$ 9,447,272</u>	<u>\$ (4,718,595)</u>	<u>\$ 68,052,132</u>	<u>\$ 4,575,263</u>

Notes to Financial Statements
June 30, 2005

City of Portage, Michigan
(Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities					
Bonds payable:					
General obligation bonds	\$ 4,684,785	\$ -	\$ (482,520)	\$ 4,202,265	\$ 459,853
CIP Utility Refunding bonds*	-	8,732,100	-	8,732,100	570,000
Utility revenue bonds	19,525,000	5,055,000	(8,425,000)	16,155,000	555,000
Total bonds payable	24,209,785	13,787,100	(8,907,520)	29,089,365	1,584,853
Compensated absences	60,012	28,187	(18,506)	69,693	18,506
Business-type activity					
Long term liabilities	\$ 24,269,797	\$ 13,815,287	\$ (8,926,026)	\$ 29,159,058	\$ 1,603,359

*See refunding discussion at the beginning of this section

The liabilities for compensated absences and net pension obligation have been liquidated out of current operations as claims arose, the cost of which is allocated among the different funds based on direct payroll allocation. The General Fund carries the largest payroll burden, and, therefore, satisfies the majority of the liability liquidation cost.

9. LITIGATION

As with any municipality, claims may from time to time be asserted which allege liability on the part of the City connected with a number of different matters involving general liability. The City is involved in a number of legal proceedings; while any litigation or investigation has an element of uncertainty, the City believes the uninsured portion of any lawsuit, or claim which is pending or threatened, or all of them combined, will not have a materially adverse effect on its financial condition or operations.

On May 6, 1998, the city reached a settlement agreement with the City of Kalamazoo for litigation begun in 1995. The litigation alleged overcharging by the City of Kalamazoo for wastewater rates over an extended period of time. The settlement agreement called for a credit of \$1,000,000 to the City of Portage that will be recognized over a 20-year period. The City of Kalamazoo has accounted for this credit as a contribution in aid of construction (of the wastewater system) on behalf of the City of Portage. The City of Portage recorded the credit as a reduction of expenses in the Sewer Fund for the appropriate amount annually over the life of the settlement period. The settlement agreement was adopted by the appropriate judicial agencies.

10. COMMITMENTS AND CONTINGENCIES

A. Capital Improvement Plan

As the City has a ten year *Capital Improvement Program* (CIP capital budget) that is an anticipated spending plan for the projects in the upcoming and future years. The City's 2004/2005 Capital Budget included new appropriations of \$18,759,000, including \$6,115,000 for the City's enterprise funds and \$12,644,000 for general government projects. The City has substantial contractual commitments relating to its capital improvement program, as follows:

CIP project:	<u>Spent to date</u>	<u>Remaining commitment</u>
Water system expansion (Enterprise fund)	\$ 120,077	\$4,185,643
Sewer main additions (Enterprise fund)	478,884	205,192
Street additions and improvements	1,303,368	4,938,099
Sidewalk and bikeway improvements	37,419	358,581
Public safety improvements - Police	557,276	213,724
Public safety improvements – Fire	462,325	146,305
Parks improvements	189,315	94,980
Public facility improvements	<u>168,507</u>	<u>175,458</u>
	\$3,317,171	\$10,317,982

B. Risk-Related Contingencies

The City uses internal service funds to account for risks related to health benefits, third-party liability, and workers' compensation. The funds are as follows:

Fund Name	Description
Liability Reserve	This reserve is held by Michigan Municipal Risk Management Association under the terms of their coverage for losses and claims related to liability for bodily injury, property damage, professional liability and certain employment liability. Excludes losses and claims related to health benefits or workers' compensation. After deductibles, experience rates dictate the reserve funding balance.
Workers' Compensation	Self-Insured. Costs are charged to other City funds each year based on historical cost. Stop-loss protection for individual incident claims paid in excess of \$350,000 is provided by Employers Reinsurance Corporation.

The City purchases coverage for loss or damage to real property, theft and other criminal acts, and third-party liability associated with utility operations through participation in a municipal risk pool, MMRMA. The MMRMA stop loss program consists of an annually established dollar level of reserve out of which claims are paid. When payments exceed the reserve, MMRMA satisfies the claims. The level of stop loss reserve held by MMRMA as of June 30, 2005, was \$92,882. Lingering effects of the events of September 11, 2001, combined with the impact of natural disasters at home and abroad have caused insurance costs across the board to rise, and so increases have been necessary in deductibles and self-insured retention amounts.

Contingency liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

11. PENSION PLANS

The City continues to fund annuity contracts under a defined benefit pension plan covering certain employees of the City of Portage. These contracts cover certain full-time employees who were first hired prior to the years 1985 through 1989 (depending on their various employee groups), and who individually elected to remain participants in the defined benefit plan upon the City's adoption of defined contribution plans. (See Note 12.) The annuity contracts are administered by the Principal Financial Group, and are held and invested separately from all other City funds. The plan is a single-employer plan.

Plan Description. The plan is a single-employer public employee defined benefit pension plan established and administered by the City of Portage. The plan covers certain department heads and non-union employees who opted not to join a defined contribution plan, plus radio operators. Participants include several terminated vested persons from other employee groups. The Plan provides retirement and death benefits to plan members and beneficiaries. The authority to establish and amend the benefit provisions rests with the City Council, under City Charter Section 6.17. The plan is considered part of the City of Portage's financial reporting entity, and is disclosed as a pension trust fiduciary fund in the City's financial reports. A financial statement may be obtained by writing to City of Portage, Finance Department, 7900 South Westnedge Avenue, Portage, Michigan 49002 or by calling (269) 329 - 4456.

Funding Policy. There are no required contributions by plan members or the City. The contribution requirements of plan members and the employer are established and may be amended by City Council. Recommended contributions are actuarially determined. Administrative costs are funded through investment earnings.

Annual Pension Cost and Net Pension Obligation.

	<u>June 30, 2005</u>
Annual recommended contribution	\$ -0-
Interest on net pension obligation	-0-
Annual pension cost	-0-
Contribution made	-0-
Increase (decrease) in net pension obligation	-0-
Net pension obligation, beginning of year	-0-
Net pension obligation, end of year	-0-

The annual required contribution was determined as part of the July 1, 2005, actuarial valuation using the entry age, normal cost method with normal cost calculated on an aggregate basis. The actuarial assumptions include (a) an 8% investment rate of return, and (b) projected salary increases of 4% per year, compounded annually, attributable to inflation. The aggregate actuarial cost method is used. This method does not identify or separately amortize unfunded actuarial liabilities (or funding excess). The effect of this actuarial technique is to smooth the effects of short-term volatility in the market value over a four-year period.

Summary of Significant Accounting Policies:

Basis of Accounting. The defined benefit plan is maintained as a pension trust fiduciary fund and is included as part of the City's reporting entity. The financial statements of the fund are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Recommended contribution amounts to satisfy unfunded accrued pension liability are based on a 30-year amortization period. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used to Value Investments. Plan investments are reported at fair value. Investment value is determined according to the contract lump sum transfer provision ignoring any contract restrictions on such transfer. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national, or international, exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest, and are discounted at the prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
06/30/01	\$ 78,789	100%	\$ 37,590
06/30/02	\$ 75,228	100%	\$ 37,590
06/30/03	\$ 0	100%	\$ 0
06/30/04	\$ 0	100%	\$ 0
06/30/05	\$ 0	100%	\$ 0

12. DEFINED CONTRIBUTION PLANS

The City has established a number of defined contribution plans that supersede the defined benefit plan. Employees at the time had the choice of transferring to the defined contribution plans. Each employee group has its own separate plan. The non-union and department head plans are administered by the City through trust agreements with the International City/County Management Association Retirement Corporation (ICMARC). The union plans are administered by the respective unions through trust agreements with PPS&V Asset Management Consultants, Inc. Selected employees in the Police Command and Street Foreman union groups are allowed to self-direct his or her investments, however, this does not change the responsibilities of the plan administrator. Financial statements for each plan can be obtained from the Finance Director, City of Portage, 7900 South Westnedge Avenue, Portage, Michigan 49002.

Plan Description. The plans cover all full-time employees, except those still enrolled in the defined benefit plan. Plan members are not required to contribute. Plan provision and contribution requirements are established and may be amended by the City Council, under City Charter Section 6.17. The City is required to contribute either specific dollar amounts or specific percentages of full-time salary costs, depending on the employee group. During the fiscal year ended June 30, 2005, the City contributed \$1,659,260 to the various plans, representing an aggregate of approximately 14.65 percent of covered payroll. No contributions were made to the plans by their participants.

13. DEFERRED COMPENSATION PLAN

The City provides an approved deferred compensation plan, under Section 457 of the Internal Revenue Code, which is administered by the ICMA Retirement Corporation. All City employees are eligible to participate. The Internal Revenue Code requires that the plan assets and income attributed to those assets be held in trust for the exclusive benefit of the participants and/or beneficiaries. All amounts of employees' compensation deferred under the plan are deposited with the plan trustee, ICMA Retirement Corporation, for management and investment. The plan trustee holds all assets of the plan, maintains accounting of each plan participant's accumulated assets and makes distributions to participants in accordance with the plan document.

14. EXPENDITURES IN EXCESS OF APPROPRIATIONS

No general fund department spent in excess of appropriations for the year ended June 30, 2005.

Defined Benefit Retirement Plan

Schedule of Funding Progress

The amount shown below as actuarial accrued liability is computed using the Projected Unit Credit method of funding. The five most recent years of funding progress are as follows:

Actuarial Valuation Date July 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Funded Ratio (a) / (b)	Excess of Assets Over AAL (d) (a) – (b)	Annual Covered Payroll (e)	Excess as a Percentage of Covered Payroll (d) / (e)
2001	2,623,874	2,882,224	91.04%	(258,350)	525,911	(49.12)%
2002	2,568,573	2,718,333	94.49%	(149,760)	229,028	(65.39)%
2003	3,925,409	2,475,707	158.56%	1,449,702	236,382	613.29%
2004	3,694,167	2,571,035	143.68%	1,123,132	174,809	642.49%
2005	3,766,632	2,491,619	151.17%	1,275,013	172,062	741.02%

Analysis of dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of a plan's funding status on a going concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation.

Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller the percentage, the stronger the plan.

CITY OF PORTAGE, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds

June 30, 2005

	Special Revenue Funds	Debt Service Funds	Cemetery Permanent Fund	C.D.B.G. Program Income Fund	Total
ASSETS					
Cash and investments	\$ 473,859	\$ 939,930	\$ 673,511	\$ 7,376	\$ 2,094,676
Accounts receivable	282,198	-	-	1,181,535	1,463,733
Due from other governments	90,527	1,042	-	-	91,569
Prepaid costs	11,089	-	-	-	11,089
Total assets	<u>857,673</u>	<u>940,972</u>	<u>673,511</u>	<u>1,188,911</u>	<u>3,661,067</u>
LIABILITIES					
Accounts payable	55,630	-	-	716	56,346
Checks issued against future deposits	66,144	-	-	-	66,144
Accrued compensation	10,656	-	-	-	10,656
Interest payable	-	5,287	-	-	5,287
Deferred revenue	53,253	-	-	1,181,535	1,234,788
Deposits payable	25,000	-	-	-	25,000
Total liabilities	<u>210,683</u>	<u>5,287</u>	<u>-</u>	<u>1,182,251</u>	<u>1,398,221</u>
FUND BALANCES					
Reserved for encumbrances	68,858	-	-	-	68,858
Reserved for prepaid costs	11,089	-	-	-	11,089
Reserved for uncompleted projects	112,335	-	-	-	112,335
Reserved for debt service	-	935,685	-	-	935,685
Reserved for perpetual care	-	-	673,511	-	673,511
Reserved for loans	-	-	-	6,660	6,660
Unreserved and undesignated	454,708	-	-	-	454,708
Total fund balances	<u>646,990</u>	<u>935,685</u>	<u>673,511</u>	<u>6,660</u>	<u>2,262,846</u>
Total liabilities and fund balances	<u>\$ 857,673</u>	<u>\$ 940,972</u>	<u>\$ 673,511</u>	<u>\$ 1,188,911</u>	<u>\$ 3,661,067</u>

CITY OF PORTAGE, MICHIGAN

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds

Fiscal Year Ended June 30, 2005

	Special Revenue Funds	Debt Service Funds	Cemetery Permanent Fund	C.D.B.G. Program Income Fund	Total
REVENUES					
Taxes and special assessments	\$ 1,182,343	\$ 529,714	\$ -	\$ -	\$ 1,712,057
Licenses and permits	503,063	-	-	-	503,063
Intergovernmental	423,641	-	-	-	423,641
Charges for services	39,303	-	42,125	-	81,428
Interest and rents	19,836	250,150	15,144	-	285,130
Other	117,162	-	-	149,586	266,748
Total revenues	<u>2,285,348</u>	<u>779,864</u>	<u>57,269</u>	<u>149,586</u>	<u>3,272,067</u>
EXPENDITURES					
Current:					
General government	55,167	-	-	-	55,167
Public safety	65,987	-	-	-	65,987
Health and welfare	1,417,230	-	-	149,584	1,566,814
Recreation and cultural	575,336	-	-	-	575,336
Economic development	-	2,535,253	-	-	2,535,253
Debt service:					
Principal	-	2,456,328	-	-	2,456,328
Interest and fiscal charges	-	2,236,341	-	-	2,236,341
Total expenditures	<u>2,113,720</u>	<u>7,227,922</u>	<u>-</u>	<u>149,584</u>	<u>9,491,226</u>
Excess (deficiency) of revenues over expenditures	<u>171,628</u>	<u>(6,448,058)</u>	<u>57,269</u>	<u>2</u>	<u>(6,219,159)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	4,043,700	-	-	4,043,700
Transfers out	<u>(19,453)</u>	<u>(4,636)</u>	<u>(8,500)</u>	<u>-</u>	<u>(32,589)</u>
Total other financing sources (uses)	<u>(19,453)</u>	<u>4,039,064</u>	<u>(8,500)</u>	<u>-</u>	<u>4,011,111</u>
Net change in fund balances	152,175	(2,408,994)	48,769	2	(2,208,048)
Fund balances - beginning	<u>494,815</u>	<u>3,344,679</u>	<u>624,742</u>	<u>6,658</u>	<u>4,470,894</u>
Fund balances - ending	<u>\$ 646,990</u>	<u>\$ 935,685</u>	<u>\$ 673,511</u>	<u>\$ 6,660</u>	<u>\$ 2,262,846</u>

CITY OF PORTAGE, MICHIGAN

Combining Balance Sheet Nonmajor Special Revenue Funds

June 30, 2005

	Cultural Activities Fund	Cable Television Fund	Community Development Block Grant Fund	West Lake Management Program	Curbside Recycling Fund	Leaf Pickup Spring Clean Fund	Total
ASSETS							
Cash and investments	\$ 772	\$ 11,387	\$ -	\$ 137,226	\$ 219,082	\$ 105,392	\$ 473,859
Accounts receivable	12,550	239,395	-	30,253	-	-	282,198
Due from other governments	-	-	71,390	1,273	8,761	9,103	90,527
Prepaid costs	6,829	-	-	-	1,929	2,331	11,089
Total assets	<u>20,151</u>	<u>250,782</u>	<u>71,390</u>	<u>168,752</u>	<u>229,772</u>	<u>116,826</u>	<u>857,673</u>
LIABILITIES							
Accounts payable	2,226	2,364	719	10,314	36,846	3,161	55,630
Checks issued against future deposits	-	-	66,144	-	-	-	66,144
Accrued compensation	3,113	2,339	4,527	-	106	571	10,656
Deferred revenue	10,000	-	-	43,253	-	-	53,253
Deposits payable	-	25,000	-	-	-	-	25,000
Total liabilities	<u>15,339</u>	<u>29,703</u>	<u>71,390</u>	<u>53,567</u>	<u>36,952</u>	<u>3,732</u>	<u>210,683</u>
FUND BALANCES							
Reserved:							
Reserved for encumbrances	2,200	6,688	-	2,850	57,120	-	68,858
Reserved for prepaid costs	6,829	-	-	-	1,929	2,331	11,089
Reserved for lakes maintenance	-	-	-	112,335	-	-	112,335
Unreserved:							
Undesignated	(4,217)	214,391	-	-	133,771	110,763	454,708
Total fund balances	<u>4,812</u>	<u>221,079</u>	<u>-</u>	<u>115,185</u>	<u>192,820</u>	<u>113,094</u>	<u>646,990</u>
Total liabilities and fund balances	<u>\$ 20,151</u>	<u>\$ 250,782</u>	<u>\$ 71,390</u>	<u>\$ 168,752</u>	<u>\$ 229,772</u>	<u>\$ 116,826</u>	<u>\$ 857,673</u>

CITY OF PORTAGE, MICHIGAN

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Nonmajor Special Revenue Funds

Fiscal Year Ended June 30, 2005

	Cultural Activities Fund	Cable Television Fund	Community Development Block Grant Fund	West Lake Management Fund	Curbside Recycling Fund	Leaf Pickup Spring Clean Fund	Total
REVENUES:							
Taxes and special assessments	\$ -	\$ -	\$ -	\$ 51	\$ 562,808	\$ 619,484	\$ 1,182,343
Licenses and permits	-	503,063	-	-	-	-	503,063
Intergovernmental	-	-	423,641	-	-	-	423,641
Charges for services	39,303	-	-	-	-	-	39,303
Interest on investments	-	2,472	-	2,954	7,311	7,099	19,836
Other	107,919	-	-	-	-	9,243	117,162
Total revenues	<u>147,222</u>	<u>505,535</u>	<u>423,641</u>	<u>3,005</u>	<u>570,119</u>	<u>635,826</u>	<u>2,285,348</u>
EXPENDITURES:							
General government	-	-	55,167	-	-	-	55,167
Public safety	-	-	65,987	-	-	-	65,987
Health and welfare	-	-	302,487	-	560,825	553,918	1,417,230
Recreation and cultural	143,654	405,518	-	26,164	-	-	575,336
Total expenditures	<u>143,654</u>	<u>405,518</u>	<u>423,641</u>	<u>26,164</u>	<u>560,825</u>	<u>553,918</u>	<u>2,113,720</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,568</u>	<u>100,017</u>	<u>-</u>	<u>(23,159)</u>	<u>9,294</u>	<u>81,908</u>	<u>171,628</u>
OTHER FINANCING SOURCES (USES):							
Transfers out	-	-	-	-	-	(19,453)	(19,453)
Total other financing sources and (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(19,453)</u>	<u>(19,453)</u>
Net change in fund balances	3,568	100,017	-	(23,159)	9,294	62,455	152,175
Fund balances - beginning	<u>1,244</u>	<u>121,062</u>	<u>-</u>	<u>138,344</u>	<u>183,526</u>	<u>50,639</u>	<u>494,815</u>
Fund balances - ending	<u>\$ 4,812</u>	<u>\$ 221,079</u>	<u>\$ -</u>	<u>\$ 115,185</u>	<u>\$ 192,820</u>	<u>\$ 113,094</u>	<u>\$ 646,990</u>

CITY OF PORTAGE, MICHIGAN

Cultural Activities Fund Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual

Fiscal Year Ended June 30, 2005
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2004

	2005			
	Amended Budget	Actual	Variance with Amended Budget + / (-)	2004 Actual
REVENUES				
Charges for services	\$ 48,300	\$ 39,303	\$ (8,997)	\$ 38,449
Interest on investments	-	-	-	353
Other	105,500	107,919	2,419	99,605
Total revenues	<u>153,800</u>	<u>147,222</u>	<u>(6,578)</u>	<u>138,407</u>
EXPENDITURES				
Cultural Activities	<u>174,212</u>	<u>143,654</u>	<u>30,558</u>	<u>184,579</u>
Total expenditures	<u>174,212</u>	<u>143,654</u>	<u>30,558</u>	<u>184,579</u>
Excess (deficiency) of revenues over expenditures	(20,412)	3,568	23,980	(46,172)
Fund balances - beginning	<u>1,244</u>	<u>1,244</u>	<u>-</u>	<u>47,416</u>
Fund balances - ending	<u>\$ (19,168)</u>	<u>\$ 4,812</u>	<u>\$ 23,980</u>	<u>\$ 1,244</u>

CITY OF PORTAGE, MICHIGAN

Cable Television Fund Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual

**Fiscal Year Ended June 30, 2005
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2004**

	2005			2004
	Amended Budget	Actual	Variance with Amended Budget + / (-)	Actual
REVENUE:				
Licenses and permits:				
Annual fees	\$ 524,357	\$ 503,063	\$ (21,294)	\$ 498,684
Interest on investments	1,500	2,472	972	533
Total revenues	<u>525,857</u>	<u>505,535</u>	<u>(20,322)</u>	<u>499,217</u>
EXPENDITURES:				
Recreation and cultural:				
Operations	<u>471,604</u>	<u>405,518</u>	<u>66,086</u>	<u>392,185</u>
Total expenditures	<u>471,604</u>	<u>405,518</u>	<u>66,086</u>	<u>392,185</u>
Excess (deficiency) of revenues over expenditures	54,253	100,017	45,764	107,032
OTHER FINANCING USES:				
Transfers:				
General Fund	-	-	-	(190,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(190,000)</u>
Net change in fund balance	54,253	100,017	45,764	(82,968)
Fund balances - beginning	<u>121,062</u>	<u>121,062</u>	-	<u>204,030</u>
Fund balances - ending	<u>\$ 175,315</u>	<u>\$ 221,079</u>	<u>\$ 45,764</u>	<u>\$ 121,062</u>

CITY OF PORTAGE, MICHIGAN

Community Development Block Grant Fund Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual

**Fiscal Year Ended June 30, 2005
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2004**

	2005			2004
	Amended Budget	Actual	Variance with Amended Budget + / (-)	Actual
REVENUE:				
Intergovernmental:				
Federal grants	\$ 426,475	\$ 423,641	\$ (2,834)	\$ 347,763
Total revenues	<u>426,475</u>	<u>423,641</u>	<u>(2,834)</u>	<u>347,763</u>
EXPENDITURES:				
General government:				
Administration	59,860	55,167	4,693	51,337
Public safety:				
Code enforcement	70,542	65,987	4,555	61,838
Health and welfare:				
Housing rehabilitation	290,953	265,487	25,466	194,088
Portage Community Outreach Center	<u>37,000</u>	<u>37,000</u>	<u>-</u>	<u>40,500</u>
Total expenditures	<u>458,355</u>	<u>423,641</u>	<u>34,714</u>	<u>347,763</u>
Excess (deficiency) of revenues over expenditures	(31,880)	-	(31,880)	-
Fund balances - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - ending	<u>\$ (31,880)</u>	<u>\$ -</u>	<u>\$ (31,880)</u>	<u>\$ -</u>

CITY OF PORTAGE, MICHIGAN

West Lake Management Fund Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual

Fiscal Year Ended June 30, 2005
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2004

	2005		
	Amended Budget	Actual	Variance with Amended Budget + / (-)
			2004 Actual
REVENUE:			
Taxes and special assessments	\$ 15,040	\$ 51	\$ (14,989)
Interest on investments	1,500	2,954	1,454
Total revenues	<u>16,540</u>	<u>3,005</u>	<u>(13,535)</u>
EXPENDITURES:			
Recreation and Cultural:			
Weed control	<u>40,000</u>	<u>26,164</u>	<u>13,836</u>
Total expenditures	<u>40,000</u>	<u>26,164</u>	<u>13,836</u>
Excess (deficiency) of revenues over expenditures	<u>(23,460)</u>	<u>(23,159)</u>	<u>301</u>
Net change in fund balance	(23,460)	(23,159)	301
Fund balances - beginning	<u>138,344</u>	<u>138,344</u>	<u>-</u>
Fund balances - ending	<u>\$ 114,884</u>	<u>\$ 115,185</u>	<u>\$ 301</u>

CITY OF PORTAGE, MICHIGAN

Curbside Recycling Fund Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual

Fiscal Year Ended June 30, 2005
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2004

	2005			2004
	Amended Budget	Actual	Variance with Amended Budget + / (-)	Actual
REVENUE:				
Taxes and special assessments	\$ 562,200	\$ 562,808	\$ 608	\$ 628,752
Interest on investments	4,000	7,311	3,311	4,738
Total revenues	<u>566,200</u>	<u>570,119</u>	<u>3,919</u>	<u>633,490</u>
EXPENDITURES:				
Health and welfare:				
Operations	<u>665,160</u>	<u>560,825</u>	<u>104,335</u>	<u>521,155</u>
Total expenditures	<u>665,160</u>	<u>560,825</u>	<u>104,335</u>	<u>521,155</u>
Excess (deficiency) of revenues over expenditures	(98,960)	9,294	108,254	112,335
OTHER FINANCING SOURCES (USES):				
Transfer in (out):				
General Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,000)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,000)</u>
Net change in fund balance	(98,960)	9,294	108,254	106,335
Fund balances - beginning	<u>183,526</u>	<u>183,526</u>	<u>-</u>	<u>77,191</u>
Fund balances - ending	<u>\$ 84,566</u>	<u>\$ 192,820</u>	<u>\$ 108,254</u>	<u>\$ 183,526</u>

CITY OF PORTAGE, MICHIGAN

Leaf Pickup / Spring Cleanup Fund Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual

Fiscal Year Ended June 30, 2005
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2004

	2005			2004
	Amended Budget	Actual	Variance with Amended Budget + / (-)	Actual
REVENUE:				
Taxes and special assessments	\$ 620,300	\$ 619,484	\$ (816)	\$ 653,187
Interest on investments	4,000	7,099	3,099	3,899
Other revenue	15,000	9,243	(5,757)	10,517
Total revenues	<u>639,300</u>	<u>635,826</u>	<u>(3,474)</u>	<u>667,603</u>
EXPENDITURES:				
Health and welfare:				
Operations	591,445	553,918	37,527	507,888
Total expenditures	<u>591,445</u>	<u>553,918</u>	<u>37,527</u>	<u>507,888</u>
Excess (deficiency) of revenues over expenditures	<u>47,855</u>	<u>81,908</u>	<u>34,053</u>	<u>159,715</u>
OTHER FINANCING SOURCES (USES):				
Transfer in (out):				
General Fund	-	-	-	(98,913)
Debt Service Fund	(19,453)	(19,453)	-	(19,201)
Total other financing sources (uses)	<u>(19,453)</u>	<u>(19,453)</u>	<u>-</u>	<u>(118,114)</u>
Net change in fund balance	28,402	62,455	34,053	41,601
Fund balances - beginning	<u>50,639</u>	<u>50,639</u>	<u>-</u>	<u>9,038</u>
Fund balances - ending	<u>\$ 79,041</u>	<u>\$ 113,094</u>	<u>\$ 34,053</u>	<u>\$ 50,639</u>

CITY OF PORTAGE, MICHIGAN

Combining Balance Sheet Nonmajor Debt Service Funds

June 30, 2005

	General Obligation Debt Fund	Motor Vehicle Highway Fund	Downtown Development Authority Fund	Building Authority Debt Service Fund	Local Development Finance Authority Debt Service Fund	Local Development Finance Authority 2 Debt Service Fund	Total
ASSETS							
Cash and investments	\$ 89,001	\$ 7,978	\$ 271,605	\$ 8,195	\$ -	\$ 563,151	\$ 939,930
Due from other governments	-	-	1,042	-	-	-	1,042
Total assets	<u>89,001</u>	<u>7,978</u>	<u>272,647</u>	<u>8,195</u>	<u>-</u>	<u>563,151</u>	<u>940,972</u>
LIABILITIES							
Interest payable	<u>5,287</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,287</u>
Total liabilities	<u>5,287</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,287</u>
FUND BALANCES							
Reserved for debt service	<u>83,714</u>	<u>7,978</u>	<u>272,647</u>	<u>8,195</u>	<u>-</u>	<u>563,151</u>	<u>935,685</u>
Total fund balances	<u>83,714</u>	<u>7,978</u>	<u>272,647</u>	<u>8,195</u>	<u>-</u>	<u>563,151</u>	<u>935,685</u>
Total liabilities and fund balances	<u>\$ 89,001</u>	<u>\$ 7,978</u>	<u>\$ 272,647</u>	<u>\$ 8,195</u>	<u>\$ -</u>	<u>\$ 563,151</u>	<u>\$ 940,972</u>

CITY OF PORTAGE, MICHIGAN

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Nonmajor Debt Service Funds

Fiscal Year Ended June 30, 2005

	General Obligation Debt Fund	Motor Vehicle Highway Fund	Downtown Development Authority Fund	Building Authority Debt Service Fund	Local Development Finance Authority Debt Service Fund	Local Development Finance Authority 2004 Debt Service Fund	Total
REVENUES:							
Taxes and special assessments	\$ 819	\$ -	\$ 241,047	\$ -	\$ 236,364	\$ 51,484	\$ 529,714
Interest on investments	69	140	903	-	46	13,639	14,797
Rental revenue	-	-	-	235,353	-	-	235,353
Other revenue	-	-	-	-	-	-	-
Total revenues	<u>888</u>	<u>140</u>	<u>241,950</u>	<u>235,353</u>	<u>236,410</u>	<u>65,123</u>	<u>779,864</u>
EXPENDITURES:							
Debt Service:							
Principal retirement	993,947	700,000	25,000	497,381	240,000	-	2,456,328
Interest and fiscal charges	491,648	673,597	280,413	651,562	8,221	130,900	2,236,341
Economic development	-	-	-	-	-	2,535,253	2,535,253
Total expenditures	<u>1,485,595</u>	<u>1,373,597</u>	<u>305,413</u>	<u>1,148,943</u>	<u>248,221</u>	<u>2,666,153</u>	<u>7,227,922</u>
Excess (deficiency) of revenues over expenditures	<u>(1,484,707)</u>	<u>(1,373,457)</u>	<u>(63,463)</u>	<u>(913,590)</u>	<u>(11,811)</u>	<u>(2,601,030)</u>	<u>(6,448,058)</u>
OTHER FINANCING SOURCES (USES):							
Transfers in:							
Capital Improvement Fund	1,545,000	1,374,000	255,247	850,000	-	-	4,024,247
Special Assessment Fund	19,453	-	-	-	-	-	19,453
Operating transfers out:							
Capital Improvement Projects Fund	-	(4,636)	-	-	-	-	(4,636)
Total other financing sources (uses)	<u>1,564,453</u>	<u>1,369,364</u>	<u>255,247</u>	<u>850,000</u>	<u>-</u>	<u>-</u>	<u>4,039,064</u>
Net change in fund balance	79,746	(4,093)	191,784	(63,590)	(11,811)	(2,601,030)	(2,408,994)
Fund balances - beginning	<u>3,968</u>	<u>12,071</u>	<u>80,863</u>	<u>71,785</u>	<u>11,811</u>	<u>3,164,181</u>	<u>3,344,679</u>
Fund balances - ending	<u>\$ 83,714</u>	<u>\$ 7,978</u>	<u>\$ 272,647</u>	<u>\$ 8,195</u>	<u>\$ -</u>	<u>\$ 563,151</u>	<u>\$ 935,685</u>

CITY OF PORTAGE, MICHIGAN

General Obligation Debt Service Fund Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual

Fiscal Year Ended June 30, 2005
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2004

	2005			2004
	Amended Budget	Actual	Variance with Amended Budget + / (-)	Actual
REVENUES				
Taxes	\$ -	\$ 819	\$ 819	\$ (72)
Interest on investments	2,000	69	(1,931)	261
Total revenues	<u>2,000</u>	<u>888</u>	<u>(1,112)</u>	<u>189</u>
EXPENDITURES				
Debt Service:				
Principal retirement	647,500	993,947	(346,447)	569,498
Interest and fiscal charges	603,265	491,648	111,617	299,489
Total expenditures	<u>1,250,765</u>	<u>1,485,595</u>	<u>(234,830)</u>	<u>868,987</u>
Excess (deficiency) of revenues over expenditures	<u>(1,248,765)</u>	<u>(1,484,707)</u>	<u>(235,942)</u>	<u>(868,798)</u>
OTHER FINANCING SOURCES:				
Transfers in:				
Leaf Pickup/Spring Cleanup Fund	19,453	19,453	-	19,201
Capital Improvement Funds	1,239,000	1,545,000	306,000	773,000
Total other financing sources (uses)	<u>1,258,453</u>	<u>1,564,453</u>	<u>306,000</u>	<u>792,201</u>
Net change in fund balance	9,688	79,746	70,058	(76,597)
Fund balances - beginning	<u>3,968</u>	<u>3,968</u>	<u>-</u>	<u>80,565</u>
Fund balances - ending	<u>\$ 13,656</u>	<u>\$ 83,714</u>	<u>\$ 70,058</u>	<u>\$ 3,968</u>

CITY OF PORTAGE, MICHIGAN

Motor Vehicle Highway Fund Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual

Fiscal Year Ended June 30, 2005
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2004

	2005		
	Amended Budget	Actual	Variance with Amended Budget + / (-)
			2004 Actual
REVENUES			
Interest on investments	\$ -	\$ 140	\$ 140
Total revenues	-	140	74
EXPENDITURES			
Debt Service:			
Principal retirement	700,000	700,000	-
Interest and fiscal charges	674,042	673,597	445
Total expenditures	1,374,042	1,373,597	445
Excess (deficiency) of revenues over expenditures	(1,374,042)	(1,373,457)	585
OTHER FINANCING SOURCES (USES):			
Transfers in:			
Capital Improvement Fund	1,374,000	1,374,000	-
Special Assessment Fund	-	-	-
Transfers out:			
Capital Improvement Fund	-	(4,636)	(4,636)
Total other financing sources (uses)	1,374,000	1,369,364	(4,636)
Net change in fund balance	(42)	(4,093)	(4,051)
Fund balances - beginning	12,071	12,071	-
Fund balances - ending	\$ 12,029	\$ 7,978	\$ (4,051)

CITY OF PORTAGE, MICHIGAN

Downtown Development Authority Debt Service Fund Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual

**Fiscal Year Ended June 30, 2005
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2004**

	2005		
	Amended Budget	Actual	Variance with Amended Budget + / (-)
			2004 Actual
REVENUE:			
Taxes	\$ 173,000	\$ 241,047	\$ 68,047
Interest on investments	500	903	9,068
Total revenues	<u>173,500</u>	<u>241,950</u>	<u>161,726</u>
EXPENDITURES:			
Debt Service:			
Principal	25,000	25,000	-
Interest	<u>280,670</u>	<u>280,413</u>	<u>148,206</u>
Total expenditures	<u>305,670</u>	<u>305,413</u>	<u>148,206</u>
Excess of revenues over expenditures	(132,170)	(63,463)	13,520
OTHER FINANCING SOURCES			
Transfers in:			
Capital Improvement Fund	<u>255,248</u>	<u>255,247</u>	<u>(1)</u>
Total other financing sources (uses)	<u>255,248</u>	<u>255,247</u>	<u>-</u>
Net change in fund balance	123,078	191,784	68,706
Fund balances - beginning	<u>80,863</u>	<u>80,863</u>	<u>-</u>
Fund balances - ending	<u>\$ 203,941</u>	<u>\$ 272,647</u>	<u>\$ 80,863</u>

CITY OF PORTAGE, MICHIGAN

Building Authority Debt Service Fund Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual

**Fiscal Year Ended June 30, 2005
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2004**

	2005			
	Amended Budget	Actual	Variance with Amended Budget + / (-)	2004 Actual
REVENUES				
Interest on investments	\$ 5,000	\$ -	\$ (5,000)	\$ -
Rental revenue	238,554	235,353	(3,201)	241,754
Total revenues	<u>243,554</u>	<u>235,353</u>	<u>(8,201)</u>	<u>241,754</u>
EXPENDITURES				
Debt Service:				
Principal	497,398	497,381	17	478,359
Interest	652,694	651,562	1,132	672,110
Total expenditures	<u>1,150,092</u>	<u>1,148,943</u>	<u>1,149</u>	<u>1,150,469</u>
Excess of revenues over expenditures	<u>(906,538)</u>	<u>(913,590)</u>	<u>(7,052)</u>	<u>(908,715)</u>
OTHER FINANCING SOURCES				
Transfers in:				
Capital Improvement Fund	939,000	850,000	(89,000)	912,000
Total other financing sources (uses)	<u>939,000</u>	<u>850,000</u>	<u>(89,000)</u>	<u>912,000</u>
Net change in fund balance	32,462	(63,590)	(96,052)	3,285
Fund balances - beginning	<u>71,785</u>	<u>71,785</u>	<u>-</u>	<u>68,500</u>
Fund balances - ending	<u>\$ 104,247</u>	<u>\$ 8,195</u>	<u>\$ (96,052)</u>	<u>\$ 71,785</u>

CITY OF PORTAGE, MICHIGAN

Local Development Finance Authority Debt Service Fund Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual

**Fiscal Year Ended June 30, 2005
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2004**

	2005			
	Amended Budget	Actual	Variance with Amended Budget + / (-)	2004 Actual
REVENUES				
Taxes	\$ 239,354	\$ 236,364	\$ (2,990)	\$ 236,365
Refund of prior tax collections	-	-	-	(538,008)
Interest on investments	1,000	46	(954)	6,913
Total revenues	<u>240,354</u>	<u>236,410</u>	<u>(3,944)</u>	<u>(294,730)</u>
EXPENDITURES				
Debt Service:				
Principal	240,000	240,000	-	270,000
Interest	7,500	8,221	(721)	24,925
Total expenditures	<u>247,500</u>	<u>248,221</u>	<u>(721)</u>	<u>294,925</u>
Excess (deficiency) of revenues over expenditures	<u>(7,146)</u>	<u>(11,811)</u>	<u>(4,665)</u>	<u>(589,655)</u>
Net change in fund balance	(7,146)	(11,811)	(4,665)	(589,655)
Fund balances - beginning	<u>11,811</u>	<u>11,811</u>	-	601,466
Fund balances - ending	<u>\$ 4,665</u>	<u>\$ -</u>	<u>\$ (4,665)</u>	<u>\$ 11,811</u>

CITY OF PORTAGE, MICHIGAN

Local Development Finance Authority 2004 Debt Service Fund Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual

Fiscal Year Ended June 30, 2005
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2004

	2005		
	Amended Budget	Actual	Variance with Amended Budget + / (-)
			2004 Actual
REVENUES			
Taxes and special assessments	\$ -	\$ 51,484	\$ 51,484
Interest on investments	1,000	13,639	12,639
Total revenues	1,000	65,123	64,123
EXPENDITURES			
Debt Service:			
Principal	-	-	-
Interest	237,500	130,900	106,600
Economic development	102,419	2,535,253	(2,432,834)
Total expenditures	339,919	2,666,153	(2,326,234)
Excess (deficiency) of revenues over expenditures	(338,919)	(2,601,030)	(2,262,111)
OTHER FINANCING SOURCES			
Bond proceeds	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balance	(338,919)	(2,601,030)	(2,262,111)
Fund balances - beginning	3,164,181	3,164,181	-
Fund balances - ending	\$ 2,825,262	\$ 563,151	\$ (2,262,111)
			\$ 3,164,181

The accompanying notes are an integral part of these financial statements.

CITY OF PORTAGE, MICHIGAN

Cemetery Permanent Fund Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual

Fiscal Year Ended June 30, 2005
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2004

	2005		
	Amended Budget	Actual	Variance with Amended Budget + / (-)
			2004 Actual
REVENUES			
Charges for services	\$ 54,000	\$ 42,125	\$ (11,875)
Interest on investments	8,500	15,144	6,644
Total revenues	<u>62,500</u>	<u>57,269</u>	<u>(5,231)</u>
OTHER FINANCING SOURCES			
Transfers out:			
General Fund	<u>(8,500)</u>	<u>(8,500)</u>	<u>-</u>
Total other financing sources (uses)	<u>(8,500)</u>	<u>(8,500)</u>	<u>(9,553)</u>
Net change in fund balances	54,000	48,769	(5,231)
Fund balances - beginning	<u>624,742</u>	<u>624,742</u>	<u>-</u>
Fund balances - ending	<u>\$ 678,742</u>	<u>\$ 673,511</u>	<u>\$ (5,231)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PORTAGE, MICHIGAN

Community Development Block Grant Program Income Fund Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual

Fiscal Year Ended June 30, 2005

	2005			
	Amended Budget	Actual	Variance with Amended Budget + / (-)	2004 Actual
REVENUES				
Loan principal	\$ 95,000	\$ 129,092	\$ 34,092	\$ 47,576
Loan interest	22,495	20,494	(2,001)	25,198
Interest on investments	3,500	-	(3,500)	-
Total revenues	<u>120,995</u>	<u>149,586</u>	<u>28,591</u>	<u>72,774</u>
EXPENDITURES				
Housing rehabilitation loans	102,195	91,658	10,537	50,413
Other	18,800	57,926	(39,126)	21,316
Total expenditures	<u>120,995</u>	<u>149,584</u>	<u>(28,589)</u>	<u>71,729</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>2</u>	<u>2</u>	<u>1,045</u>
Net change in fund balances	-	2	2	1,045
Fund balances - beginning	<u>6,658</u>	<u>6,658</u>	<u>-</u>	<u>5,613</u>
Fund balances - ending	<u>\$ 6,658</u>	<u>\$ 6,660</u>	<u>\$ 2</u>	<u>\$ 6,658</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PORTAGE, MICHIGAN

Combining Statement of Net Assets Internal Service Funds

June 30, 2005

	Equipment Fund	Insurance Fund	Total
ASSETS			
Current assets:			
Cash and investments	\$ 323,484	\$ 667,119	\$ 990,603
Receivables	631	-	631
Inventory	85,270	-	85,270
Prepaid costs	64,651	-	64,651
Total current assets	<u>474,036</u>	<u>667,119</u>	<u>1,141,155</u>
Capital assets:			
Land	22,489	-	22,489
Land improvements	123,769	-	123,769
Buildings	1,750,596	-	1,750,596
Machinery and equipment	950,256	-	950,256
Vehicles	3,618,560	-	3,618,560
Less accumulated depreciation	<u>(4,320,101)</u>	<u>-</u>	<u>(4,320,101)</u>
∞ Total capital assets (net of accumulated depreciation)	<u>2,145,569</u>	<u>-</u>	<u>2,145,569</u>
Total assets	<u>2,619,605</u>	<u>667,119</u>	<u>3,286,724</u>
LIABILITIES			
Current liabilities:			
Accounts payable	48,471	-	48,471
Accrued compensation	7,773	-	7,773
Workers' compensation	-	568,630	568,630
Accrued interest payable	18,459	-	18,459
Current portion of long-term debt	362,324	-	362,324
Total current liabilities	<u>437,027</u>	<u>568,630</u>	<u>1,005,657</u>
Long term liabilities:			
Notes payable (net of current portion)	96,096	-	96,096
Capital lease (net of current portion)	1,558,947	-	1,558,947
Accrued vacation and sick pay	32,383	-	32,383
Total long term liabilities	<u>1,687,426</u>	<u>-</u>	<u>1,687,426</u>
Total liabilities	<u>2,124,453</u>	<u>568,630</u>	<u>2,693,083</u>
NET ASSETS			
Invested in capital assets (net of related debt)	128,202	-	128,202
Unrestricted	366,950	98,489	465,439
Total net assets	<u>\$ 495,152</u>	<u>\$ 98,489</u>	<u>\$ 593,641</u>

CITY OF PORTAGE, MICHIGAN

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets Internal Service Funds

Fiscal Year Ended June 30, 2005

	Equipment Fund	Insurance Fund	Total
Operating revenues:			
Charges for services:			
User charges	\$ 1,737,097	\$ 389,739	\$ 2,126,836
Other	21,700	-	21,700
Total operating revenue	<u>1,758,797</u>	<u>389,739</u>	<u>2,148,536</u>
Operating expenses:			
Operations and maintenance:			
Equipment	1,308,203	-	1,308,203
Workers' compensation	-	389,739	389,739
Depreciation	416,479	-	416,479
⌘ Total operating expenses	<u>1,724,682</u>	<u>389,739</u>	<u>2,114,421</u>
Operating income (loss)	<u>34,115</u>	<u>-</u>	<u>34,115</u>
Nonoperating revenues (expenses):			
Interest on investments	4,667	12,876	17,543
Interest and fiscal charges	(65,137)	-	(65,137)
Gain (loss) on sale of fixed assets	26,355	-	26,355
Total nonoperating revenues (expenses)	<u>(34,115)</u>	<u>12,876</u>	<u>(21,239)</u>
Change in net assets	-	12,876	12,876
Total net assets - beginning	<u>495,152</u>	<u>85,613</u>	<u>580,765</u>
Total net assets - ending	<u>\$ 495,152</u>	<u>\$ 98,489</u>	<u>\$ 593,641</u>

CITY OF PORTAGE, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

Fiscal Year Ended June 30, 2005

	Equipment Fund	Insurance Fund	Total
OPERATING ACTIVITIES:			
Cash received from customers	\$ 1,758,166	389,739	\$ 2,147,905
Cash payments to suppliers for goods and services	(958,892)	(421,975)	(1,380,867)
Cash payments to employees for services	(327,927)	-	(327,927)
Cash provided by (used in) operating activities	<u>471,347</u>	<u>(32,236)</u>	<u>439,111</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from capital borrowings	367,000	-	367,000
Proceeds from sale of capital assets	26,356	-	26,356
Acquisition and construction of capital assets	(455,745)	-	(455,745)
Principal paid on capital lease	(285,137)	-	(285,137)
Principal paid on notes	(16,016)	-	(16,016)
Interest and fiscal charges paid on capital lease and notes	(65,137)	-	(65,137)
Cash used by capital and related financing activities	<u>(428,679)</u>	<u>-</u>	<u>(428,679)</u>
☺ INVESTING ACTIVITIES:			
Interest on investments	4,667	12,876	17,543
Cash provided by investing activities	<u>4,667</u>	<u>12,876</u>	<u>17,543</u>
Net increase (decrease) in cash and cash equivalents	47,335	(19,360)	27,975
Cash and cash equivalents - beginning of year	276,149	686,479	962,628
Cash and cash equivalents - end of year	<u><u>\$ 323,484</u></u>	<u><u>\$ 667,119</u></u>	<u><u>\$ 990,603</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 34,115	\$ -	\$ 34,115
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	416,479	-	416,479
(Increase) decrease in accounts receivable	(631)	-	(631)
(Increase) decrease in inventory	(12,442)	-	(12,442)
(Increase) in prepaid costs	(7,013)	-	(7,013)
Decrease in accounts payable	44,992	-	44,992
Increase (decrease) in accrued compensation	(4,153)	(32,236)	(36,389)
Net cash provided by operating activities	<u><u>\$ 471,347</u></u>	<u><u>\$ (32,236)</u></u>	<u><u>\$ 439,111</u></u>

CITY OF PORTAGE, MICHIGAN

Combining Statement of Fiduciary Net Assets Pension Trust Funds

June 30, 2005

	Pension Trust Fund	Retiree Health Care Fund	Total Pension and Employee Benefit Trust Funds
<u>ASSETS</u>			
Cash and investments	\$ -	\$ 1,247,930	\$ 1,247,930
Investments in fixed income securities	3,766,632	-	3,766,632
Total assets	<u>3,766,632</u>	<u>1,247,930</u>	<u>5,014,562</u>
<u>LIABILITIES</u>			
Deposits	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
<u>NET ASSETS</u>			
Restricted for retiree benefits	<u>3,766,632</u>	<u>1,247,930</u>	<u>5,014,562</u>
Unrestricted	-	-	-
Total net assets	<u>\$ 3,766,632</u>	<u>\$ 1,247,930</u>	<u>\$ 5,014,562</u>

CITY OF PORTAGE, MICHIGAN

Combining Statement of Changes in Fiduciary Net Assets Pension Trust Funds

Fiscal Year Ended June 30, 2005

	Pension Trust Fund	Retiree Health Care Fund	Total Pension and Employee Benefit Trust Funds
ADDITIONS			
Employer contributions	\$ -	\$ 281,814	\$ 281,814
Investment income			
Net increase (decrease) in the fair value of investments	122,381	-	122,381
Interest income	176,848	7,020	183,868
Net investment earnings	299,229	7,020	306,249
Total additions	299,229	288,834	588,063
DEDUCTIONS			
Benefits to plan members	(210,760)	-	(210,760)
Administrative expenses	(16,004)	-	(16,004)
Total deductions	(226,764)	-	(226,764)
Change in net assets	72,465	288,834	361,299
Net assets - beginning	3,694,167	959,096	4,653,263
Net assets - ending	\$ 3,766,632	\$ 1,247,930	\$ 5,014,562

CITY OF PORTAGE, MICHIGAN

Combining Statement of Net Assets Agency Funds

June 30, 2005

	Current Year Tax Collection	Investment Interest Allocation	Payroll Fund	Trust and Agency	Historic Book	Total Agency Funds
ASSETS						
Cash and investments	\$ 551,529	\$ -	\$ -	\$ 96,610	\$ 2,100	\$ 650,239
Accounts receivable	215,739	-	324,220	3,631	-	543,590
Accrued interest receivable	-	299,764	-	-	-	299,764
Total assets	<u>767,268</u>	<u>299,764</u>	<u>324,220</u>	<u>100,241</u>	<u>2,100</u>	<u>1,493,593</u>
LIABILITIES						
Checks issued against future deposits	-	-	324,064	-	-	324,064
Payroll withholdings payable	-	-	156	-	-	156
Accrued interest payable	-	299,764	-	-	-	299,764
Due to other governments	767,268	-	-	-	-	767,268
Deposits	-	-	-	100,241	2,100	102,341
Total liabilities	<u>767,268</u>	<u>299,764</u>	<u>324,220</u>	<u>100,241</u>	<u>2,100</u>	<u>1,493,593</u>
NET ASSETS						
Unrestricted	-	-	-	-	-	-
Total net assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF PORTAGE, MICHIGAN
Statement of Changes in Agency Fund Assets and Liabilities
Fiduciary Funds
Fiscal Year Ended June 30, 2005

Current year Tax Collection Fund

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
<u>ASSETS</u>				
Cash and investments	\$ 12,938	\$ 77,569,032	\$ 77,030,441	\$ 551,529
Accounts receivable	214,502	1,953,310	1,952,073	215,739
<u>TOTAL ASSETS</u>	<u>\$ 227,440</u>	<u>\$ 79,522,342</u>	<u>\$ 78,982,514</u>	<u>\$ 767,268</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 227,440	\$ 99,360,979	\$ 98,821,151	\$ 767,268
<u>TOTAL LIABILITIES</u>	<u>\$ 227,440</u>	<u>\$ 99,360,979</u>	<u>\$ 98,821,151</u>	<u>\$ 767,268</u>

Investment Interest Allocation Fund

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
<u>ASSETS</u>				
Accrued interest receivable	\$ 145,910	\$ 525,897	\$ 372,043	\$ 299,764
<u>TOTAL ASSETS</u>	<u>\$ 145,910</u>	<u>\$ 525,897</u>	<u>\$ 372,043</u>	<u>\$ 299,764</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 145,910	\$ 525,897	\$ 372,043	\$ 299,764
<u>TOTAL LIABILITIES</u>	<u>\$ 145,910</u>	<u>\$ 525,897</u>	<u>\$ 372,043</u>	<u>\$ 299,764</u>

Payroll Fund

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
<u>ASSETS</u>				
Cash and investments	\$ 33,470	\$ 32,222,995	\$ 32,256,465	\$ -
Accounts receivable	15,471	554,052	245,303	324,220
<u>TOTAL ASSETS</u>	<u>\$ 48,941</u>	<u>\$ 32,777,047</u>	<u>\$ 32,501,768</u>	<u>\$ 324,220</u>
<u>LIABILITIES</u>				
Checks issued against future deposits	\$ -	\$ 324,064	\$ -	\$ 324,064
Accounts payable	48,098	17,709,884	17,757,826	156
Deposits	843	-	843	-
<u>TOTAL LIABILITIES</u>	<u>\$ 48,941</u>	<u>\$ 18,033,948</u>	<u>\$ 17,758,669</u>	<u>\$ 324,220</u>

continued ...

Trust and Agency Fund

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
ASSETS				
Cash and investments	\$ 244,497	\$ 184,653	\$ 332,540	\$ 96,610
Accounts receivable	3,631	316,751	316,751	3,631
TOTAL ASSETS	\$ 248,128	\$ 501,404	\$ 649,291	\$ 100,241
LIABILITIES				
Deposits	\$ 248,128	\$ 206,076	\$ 353,963	\$ 100,241
TOTAL LIABILITIES	\$ 248,128	\$ 206,076	\$ 353,963	\$ 100,241

Historic Book Fund

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
ASSETS				
Cash and investments	\$ -	\$ 2,100	\$ -	\$ 2,100
TOTAL ASSETS	\$ -	\$ 2,100	\$ -	\$ 2,100
LIABILITIES				
Deposits	\$ -	\$ 2,100	\$ -	\$ 2,100
TOTAL LIABILITIES	\$ -	\$ 2,100	\$ -	\$ 2,100

Combined Fiduciary Funds

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
ASSETS				
Cash and investments	\$ 290,905	\$ 109,978,780	\$ 109,619,446	\$ 650,239
Accounts receivable	379,514	3,350,010	2,886,170	843,354
TOTAL ASSETS	\$ 670,419	\$ 113,328,790	\$ 112,505,616	\$ 1,493,593
LIABILITIES				
Checks issued against future deposits	\$ -	\$ 324,064	\$ -	\$ 324,064
Accounts payable	421,448	117,596,760	116,951,020	1,067,188
Deposits	248,971	208,176	354,806	102,341
TOTAL LIABILITIES	\$ 670,419	\$ 118,129,000	\$ 117,305,826	\$ 1,493,593

CITY OF PORTAGE, MICHIGAN

Special Assessments Fund Schedule of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual

Fiscal Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget + / (-)
REVENUE:				
Special assessments	\$ 991,690	\$ 991,690	\$ 626,428	\$ (365,262)
Interest on special assessments	274,000	274,000	253,213	(20,787)
Interest on investments	19,400	19,400	61,500	42,100
Total revenues	<u>1,285,090</u>	<u>1,285,090</u>	<u>941,141</u>	<u>(343,949)</u>
EXPENDITURES:				
Debt Service:				
Principal retirement	910,000	910,000	910,000	-
Interest and fiscal charges	343,854	343,854	354,277	(10,423)
Total expenditures	<u>1,253,854</u>	<u>1,253,854</u>	<u>1,264,277</u>	<u>(10,423)</u>
Excess (deficiency) of revenues over expenditures	<u>31,236</u>	<u>31,236</u>	<u>(323,136)</u>	<u>(354,372)</u>
Net change in fund balance	31,236	31,236	(323,136)	(354,372)
Fund balance - beginning	<u>3,124,284</u>	<u>3,124,284</u>	<u>3,124,284</u>	<u>-</u>
Fund balance - ending	<u>\$ 3,155,520</u>	<u>\$ 3,155,520</u>	<u>\$ 2,801,148</u>	<u>\$ (354,372)</u>

CITY OF PORTAGE, MICHIGAN

Capital Projects Fund Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual

Fiscal Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget + / (-)
REVENUE:				
Taxes and special assessments	\$ 3,462,000	\$ 3,462,000	\$ 3,504,162	\$ 42,162
Intergovernmental:				
State grants	-	3,850	62,552	58,702
Interest and rents	200,000	200,000	35	(199,965)
Other	1,070,000	1,715,009	464,252	(1,250,757)
Total revenues	<u>4,732,000</u>	<u>5,380,859</u>	<u>4,031,001</u>	<u>(1,349,858)</u>
EXPENDITURES:				
Capital outlay	<u>9,092,000</u>	<u>20,394,867</u>	<u>10,488,195</u>	<u>(9,906,672)</u>
Total expenditures	<u>9,092,000</u>	<u>20,394,867</u>	<u>10,488,195</u>	<u>9,906,672</u>
Excess (deficiency) of revenues over expenditures	<u>(4,360,000)</u>	<u>(15,014,008)</u>	<u>(6,457,194)</u>	<u>8,556,814</u>
OTHER FINANCING SOURCES (USES):				
Proceeds of debt obligations	7,194,000	16,189,620	8,062,900	(8,126,720)
Transfers in	718,000	1,209,034	240,595	(968,439)
Transfers out	<u>(3,552,000)</u>	<u>(3,825,783)</u>	<u>(4,153,029)</u>	<u>(327,246)</u>
Total other financing sources and uses	<u>4,360,000</u>	<u>13,572,871</u>	<u>4,150,466</u>	<u>(9,422,405)</u>
Net change in fund balance	-	(1,441,137)	(2,306,728)	(865,591)
Fund balance - beginning	<u>3,239,897</u>	<u>3,239,897</u>	<u>3,239,897</u>	-
Fund balance - ending	<u>\$ 3,239,897</u>	<u>\$ 1,798,760</u>	<u>\$ 933,169</u>	<u>\$ (865,591)</u>

CITY OF PORTAGE, MICHIGAN

Capital Assets Used in the Operation of Governmental Funds Comparative Schedules by Source ⁽¹⁾ June 30, 2005

	<u>TOTAL</u>
Governmental funds capital assets:	
Land	\$ 7,867,690
Land improvements	6,180,571
Buildings	11,584,125
Machinery and equipment	4,940,687
Vehicles	4,109,020
Infrastructure	<u>177,869,709</u>
 Total governmental funds capital assets	 <u><u>\$ 212,551,802</u></u>
 Investments in governmental funds capital assets by source:	
General fund	\$ 34,077,282
Cable television fund	314,355
Leaf Pickup / Spring Cleanup fund	290,456
Capital projects funds	<u>177,869,709</u>
 Total investment in governmental funds capital assets	 <u><u>\$ 212,551,802</u></u>

⁽¹⁾ This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

CITY OF PORTAGE, MICHIGAN
Capital Assets Used in the Operation of Governmental Funds
Schedules by Function and Activity ⁽¹⁾
June 30, 2005

Function and Activity	Land	Land Improvements	Buildings	Machinery and Equipment	Vehicles	Infrastructure	TOTAL
General government:							
Legislative	\$ -	\$ -	\$ -	\$ 5,404	\$ -	\$ -	\$ 5,404
Executive	-	-	-	381,362	-	-	381,362
Clerk	-	-	-	15,250	-	-	15,250
Finance/treasury	-	-	-	1,417,625	-	-	1,417,625
Assessor	-	-	-	8,546	-	-	8,546
Community Development	-	-	-	148,615	-	-	148,615
Other - unclassified	5,695,403	339,854	2,978,213	28,106	-	-	9,041,576
Total general government	5,695,403	339,854	2,978,213	2,004,908	-	-	11,018,378
Public safety:							
Police	19,000	38,236	3,086,508	1,329,633	792,650	-	5,266,027
Fire	365,036	77,056	2,971,182	476,153	3,148,992	-	7,038,419
Total public safety	384,036	115,292	6,057,690	1,805,786	3,941,642	-	12,304,446
Public works:	-	-	-	27,805	-	-	27,805
Highways and streets:							
Right of way	-	-	-	-	-	4,094,463	4,094,463
Streets and alleys	-	-	-	-	-	159,647,135	159,647,135
Bikeways	-	-	-	-	-	396,398	396,398
Sidewalks	-	-	-	-	-	7,767,657	7,767,657
Bridges	-	-	-	-	-	1,188,922	1,188,922
Retaining walls	-	-	-	-	-	502,656	502,656
Traffic signals	-	-	-	-	-	4,272,478	4,272,478
Total highways and streets:	-	-	-	-	-	177,869,709	177,869,709
Recreation and cultural:							
Senior Citizen Center	44,000	38,200	457,452	25,825	-	-	565,477
Parks and recreation	1,627,503	5,645,395	2,090,770	797,508	-	-	10,161,176
Cable Television	-	-	-	278,855	35,500	-	314,355
Total recreation and cultural:	1,671,503	5,683,595	2,548,222	1,102,188	35,500	-	11,041,008
Health and welfare:							
Leaf Pickup / Spring Clean	116,748	41,830	-	-	131,878	-	290,456
Total governmental funds capital assets:	\$ 7,867,690	\$ 6,180,571	\$ 11,584,125	\$ 4,940,687	\$ 4,109,020	\$ 177,869,709	\$ 212,551,802

⁽¹⁾ This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

CITY OF PORTAGE, MICHIGAN

Capital Assets Used in the Operation of Governmental Funds Schedule of Changes by Function and Activity ⁽¹⁾ Fiscal Year Ended June 30, 2005

Function and Activity	Capital Assets July 1, 2004	Transfers	Additions	Deductions	Capital Assets June 30, 2005
General government:					
Legislature	\$ 6,603	\$ (1,199)	\$ -	\$ -	\$ 5,404
Executive	356,419	24,943	-	-	381,362
Clerk	8,000	(1,000)	8,250	-	15,250
Finance/treasury	1,403,398	14,227	-	-	1,417,625
Assessor	54,356	(45,810)	-	-	8,546
Community Development	139,153	(5,701)	15,163	-	148,615
Other - unclassified	8,026,195	(57,236)	1,072,617	-	9,041,576
Total general government	9,994,124	(71,776)	1,096,030	-	11,018,378
Public safety:					
Police	3,315,479	(14,334)	2,283,435	(318,553)	5,266,027
Fire	6,571,626	4,649	1,242,745	(780,601)	7,038,419
Total public safety	9,887,105	(9,685)	3,526,180	(1,099,154)	12,304,446
Public works	20,973	6,832	-	-	27,805
Infrastructure	174,920,923	-	2,948,786	-	177,869,709
Recreation and cultural:					
Senior citizen center	565,477	-	-	-	565,477
Parks and recreation	9,202,017	111,040	848,119	-	10,161,176
Total recreation and cultural	9,767,494	111,040	848,119	-	10,726,653
Cable television	315,510	(17,148)	15,993	-	314,355
Leaf pickup / Spring cleanup	309,719	(19,263)	-	-	290,456
Total governmental funds capital assets	\$ 205,215,848	\$ -	\$ 8,435,108	\$ (1,099,154)	\$ 212,551,802

⁽¹⁾ This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets

CITY OF PORTAGE, MICHIGAN
(unaudited)
General Government Expenditures by Function ⁽¹⁾

Fiscal Year Ended June 30,	Legislative	Judicial	General Government	Public Works and Improvements	Economic Development	Recreation and Cultural	Debt Service	Health and Welfare	Public Safety	Total
2005	\$ 48,359	\$ 11,798	\$ 5,263,807	\$ 14,694,860	\$ 2,535,253	\$ 2,699,435	\$ 5,956,946	\$ 1,694,330	\$ 13,277,987	\$ 46,182,775
2004	44,582	7,243	5,047,387	12,211,971	-	2,735,933	5,166,810	1,437,435	12,537,815	39,189,176
2003	50,245	145,259	4,723,590	13,369,077	-	2,814,862	4,188,257	1,862,251	11,529,037	38,682,578
2002	55,757	358,138	5,792,778	14,179,913	-	2,808,728	3,887,366	1,994,101	11,447,030	40,523,811
2001	57,410	194,246	4,936,218	12,605,596	-	2,744,001	3,882,167	1,401,958	10,913,680	36,735,276
2000	58,565	105,823	3,876,064	15,901,032	-	2,573,863	3,699,630	1,435,645	10,297,861	37,948,483
1999	55,891	500,565	3,566,601	8,125,513	-	2,253,774	3,895,848	1,163,564	9,589,124	29,150,880
1998	61,524	828,987	3,237,287	7,041,806	-	2,952,141	3,983,981	1,107,991	9,437,412	28,651,129
1997	53,692	777,535	3,081,970	8,488,729	-	3,447,696	3,931,182	742,315	8,834,123	29,357,242
1996	60,248	750,983	2,805,424	8,952,234	-	3,268,458	3,715,988	837,756	8,331,123	28,722,214

Note:

(1) includes General, Special Revenue, Debt Service, Capital Projects, and Expendable Trust Funds.

CITY OF PORTAGE, MICHIGAN

(unaudited)

General Revenue by Source ⁽¹⁾

Last Ten Fiscal Years

Fiscal Year Ended June 30,	Taxes and Special Assessments	Licenses and Permits	Inter- governmental	Charges for Services	Fines and Forfeits	Interest and Rents	Other	Total
2005	\$ 19,737,089	\$ 1,270,929	\$ 8,274,442	\$ 2,853,858	\$ 4,192	\$ 955,214	\$ 998,070	\$ 34,093,794
2004	18,152,115	1,184,504	8,393,234	2,872,353	-	879,107	315,003	31,796,316
2003	17,127,067	1,176,786	8,783,362	2,527,908	116,012	759,833	409,217	30,900,185
2002	17,963,616	1,049,746	8,806,413	2,061,923	129,290	961,362	706,576	31,678,926
2001	15,152,596	1,051,444	8,500,572	1,921,162	152,802	1,793,818	957,986	29,530,380
2000	14,860,080	711,969	7,836,242	1,767,255	132,312	1,607,587	756,771	27,672,216
1999	14,895,969	709,625	7,684,802	1,422,137	395,799	1,324,231	1,181,096	27,613,659
1998	15,654,839	723,996	7,207,258	1,541,375	756,629	1,421,753	904,990	28,210,840
1997	14,335,634	676,552	6,532,405	1,605,694	740,592	1,337,728	843,101	26,071,706
1996	14,449,012	575,765	6,841,268	1,464,008	662,096	1,182,795	767,244	25,942,188 ⁽²⁾

Notes:

(1) Includes General, Special Revenue, Debt Service, Capital Projects, and Expendable Trust Fund.

(2) Prior to the fiscal year ended June 30, 1997, the Tax Increment Finance Authority and the Local Development Finance Authority were classified as Special Revenue Funds

CITY OF PORTAGE, MICHIGAN
(unaudited)
Property Tax Levies and Collections
Last Ten Fiscal Years

<u>Fiscal Year Ended June 30,</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections ⁽¹⁾</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>	<u>Ratio of Total Tax Collections to Total Tax Levy</u>	<u>Outstanding Delinquent Taxes</u>	<u>Ratio of Delinquent Taxes to Total Tax Levy</u>
2005	\$ 17,713,879	\$ 17,530,246	98.96%	\$ 15,772	\$ 17,546,018	99.05%	\$ 40,148	0.23%
2004	16,661,133	16,594,956	99.60%	24,703	16,619,659	99.75%	40,407	0.24%
2003	15,849,415	15,782,943	99.58%	22,520	15,805,463	99.72%	79,215	0.50%
2002	15,179,020	15,160,686	99.88%	18,568	15,179,254	100.00%	54,670	0.36%
2001	14,277,046	14,230,378	99.67%	9,899	14,240,277	99.74%	58,934	0.41%
2000	15,264,153	15,238,733	99.83%	9,846	15,248,579	99.90%	64,809	0.42%
1999	15,462,855	15,345,436	99.24%	8,960	15,354,396	99.30%	64,944	0.42%
1998	14,371,756	14,353,091	99.87%	10,590	14,363,681	99.94%	58,344	0.41%
1997	12,944,024	12,926,396	99.86%	7,883	12,934,279	99.92%	51,015	0.39%
1996	11,835,145	11,639,516	98.35%	6,585	11,646,101	98.40%	45,283	0.38%

Notes:

(1) Current tax collections include taxes collected from Kalamazoo County's Revolving Tax Collection Fund.

SOURCE: Treasury Office

CITY OF PORTAGE, MICHIGAN

(unaudited)

State Equalized Property Values ⁽¹⁾

Last Ten Fiscal Years

Fiscal Year Ended June 30,	Regular Tax Roll		Specific Tax Rolls			State Equalized Value
	Real Property	Personal Property	(2) Tax Abated Property	Tax Increment Financing District	Local Development Finance Authority	
2005	\$1,633,201,500	\$ 326,733,800	\$ 27,518,600	\$ 26,491,700	\$ 7,849,600	\$ 2,021,795,200
2004	1,537,711,300	317,582,500	27,518,600	22,841,900	7,849,600	1,913,503,900
2003	1,472,486,200	309,007,200	32,779,300	21,934,100	12,265,000	1,848,471,800
2002	1,330,203,400	316,077,200	41,580,800	20,075,200	12,265,000	1,720,201,600
2001	1,247,925,800	259,211,000	52,800,800	15,090,900	12,265,000	1,587,293,500
2000	1,169,465,100	290,584,300	65,356,900	14,182,000	12,265,000	1,551,853,300
1999	1,025,628,500	265,162,500	58,865,200	-	16,870,200	1,366,526,400
1998	954,481,100	224,545,900	54,416,300	2,534,000	17,702,800	1,253,680,100
1997	869,769,900	217,682,400	65,164,800	2,650,100	18,738,200	1,174,005,400
1996	801,217,400	207,155,200	64,077,800	2,492,800	17,228,000	1,092,171,200

(1) According to State Statute, all property is to be assessed at 50 percent of market value (State Equalized Value).

(2) The Industrial Facilities and Commercial Facilities Tax Acts permit certain property to be taxed at one-half the tax rate for a period of up to twelve years.

SOURCE: City Assessor's Office, L-4022 Report

CITY OF PORTAGE, MICHIGAN
(unaudited)
Property Tax Rates - Direct and Overlapping Governments
(Per \$1,000 of Taxable Value)
Last Ten Fiscal Years

Fiscal Year Ended June 30,	City of Portage						Total City of Portage Tax Rate
	General Fund	Library	Capital Improvements	Debt Service	Curbside Recycling	Fall Leaf/ Spring Clean ⁽¹⁾	
2005	7.4712	-	2.0000	-	0.3200	0.3530	10.1442
2004	7.3592	-	2.0000	-	0.3850	0.4000	10.1442
2003	7.4672	-	2.0000	0.1575	0.2900	0.3870	10.3017
2002	7.1480	-	2.0000	0.1920	0.3730	0.2870	10.0000
2001	7.0849	-	2.0000	0.1931	0.4350	0.2870	10.0000
2000	7.1469	-	2.0000	0.1931	0.3600	0.4000	10.1000
1999	7.1559	-	2.0000	0.2011	0.4200	0.4000	10.1770
1998	7.2100	1.1570	2.0000	0.2130	0.4200	0.3340	11.3340
1997	7.0000	1.3800	2.0000	0.2290	0.3910	-	11.0000
1996	7.0000	1.3700	2.0000	0.2410	0.3890	-	11.0000

Fiscal Year Ended June 30,	State Education Tax	Portage Public Schools ⁽²⁾	Portage District Library	Kalamazoo County	Kalamazoo Regional Educational Service Agency	Kalamazoo Valley Community College	Total of All Jurisdictions (inc. City of Portage total)
2005	6.0000	3.7000	1.4900	6.1362	3.0416	2.8135	33.3255
2004	5.0000	3.7000	1.4900	6.1362	3.0416	2.8139	32.3259
2003	6.0000	3.7000	1.4900	6.1362	3.0416	2.8139	33.4834
2002	6.0000	3.7000	1.4900	6.1400	3.0416	2.8151	33.1867
2001	6.0000	3.7000	1.4900	6.1400	3.0416	2.8151	33.1867
2000	6.0000	2.6762	1.3800	6.1400	3.0418	2.8152	32.1532
1999	6.0000	2.6762	1.4200	6.1400	3.0500	2.8231	32.2863
1998	6.0000	2.6762	-	5.8405	3.0500	2.8231	31.7238
1997	6.0000	2.6762	-	6.1405	3.0500	2.8231	31.6898
1996	6.0000	2.6762	-	6.1405	3.0500	2.8231	31.6898

Notes:

(1) This millage was passed by voters in July 1997 to provide funding for fall leaf pickup/spring recycling and yard waste cleanup initiatives

(2) Non homestead properties add 18 mills

SOURCE: Treasury Office

CITY OF PORTAGE, MICHIGAN

(unaudited)

Principal Taxpayers**June 30, 2005**

<u>Name</u>	<u>Type of Business</u>	<u>Total Taxable Valuation</u>	<u>Percent of City Total</u>
Pfizer , Inc.	Pharmaceuticals	\$ 305,288,102	16.67 %
Stryker Corporation	Manufacturing	21,379,798	1.17
Crossroads Mall / Portfolio One, LLC	Retail Sales	19,988,802	1.09
Consumers Power Co.	Utility	16,943,440	0.92
Edward Rose Associates	Apartments	11,761,964	0.64
Mann+Hummel	Manufacturing	10,689,155	0.58
Meijer, Inc.	Retail Sales	8,467,573	0.46
State Farm Mutual Auto Insurance Co.	Insurance	7,329,600	0.40
Bowers Manufacturing	Manufacturing	7,179,467	0.39
Southland Mall Ltd	Retail Sales	<u>7,036,952</u>	<u>0.38</u>
Totals		<u><u>\$ 416,064,853</u></u>	<u><u>22.71 %</u></u>

SOURCE: City Assessor's Office

CITY OF PORTAGE, MICHIGAN
(unaudited)
Special Assessment Collections
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Special Assessments Collections	Special Assessments Billed
2005	\$ 888,774	\$ 853,752
2004	832,438	786,281
2003	722,101	761,715
2002	726,920	799,296
2001	1,201,892	883,117
2000	1,464,577	724,856
1999	1,527,681	801,746
1998	1,646,815	966,614
1997	1,776,905	956,414
1996	1,482,870	803,667

SOURCE: Treasury Office

CITY OF PORTAGE, MICHIGAN
(unaudited)
Computation of Legal Debt Margin
For Special Assessment Bonds

State Equalized Assessed Value - June 30, 2005	<u>\$ 2,076,202,500</u>
Debt limit - twelve percent of Adjusted State Equalized Assessed Value	249,144,300
Special Assessment Bonds	<u>8,054,000</u>
Legal debt margin	<u>\$ 241,090,300</u>

Computation of Legal Debt Margin
For General Obligation Bonds

State Equalized Assessed Value - June 30, 2005	<u>\$ 2,076,202,500</u>
Debt limit - ten percent of Adjusted State Equalized Assessed Value	207,620,250
Amount of debt applicable to debt limit: General Obligation Debt	<u>53,364,750</u>
Legal debt margin	<u>\$ 154,255,500</u>

SOURCE: Assessor (SEV)
City of Portage 2005-06 Budget (debt balances)

CITY OF PORTAGE, MICHIGAN
(unaudited)
Ratio of Net General Bonded Debt
To Assessed Value and Net Bonded Debt Per Capita
Last Ten Fiscal Years

Fiscal Year Ended June 30,	(1) Population	State Equalized Assessed Value (000s)	(2) Gross Bonded Debt	Debt Service Monies Available	Debt Payable from Proprietary Fund Revenue	Net Bonded Debt	Ratio of Net Bonded Debt to State Equalized Assessed Value	Net Bonded Debt Per Capita
2005	45,210	\$ 2,076,203	\$ 95,349,000	\$ 935,685	\$ 29,089,365	\$ 65,323,950	3.15%	\$ 1,445
2004	45,485	1,986,427	85,294,000	180,498	24,209,785	60,903,717	3.07%	1,339
2003	44,956	1,878,136	73,249,000	161,770	23,075,487	50,011,743	2.66%	1,112
2002	44,716	1,803,428	62,253,000	77,279	19,115,452	43,060,269	2.39%	963
2001	44,891	1,666,356	51,250,000	159,595	16,633,561	34,456,844	2.07%	768
2000	44,897	1,522,228	40,995,999	196,794	14,084,040	26,715,165	1.76%	595
1999	44,360	1,474,231	35,349,000	172,237	15,127,088	20,049,675	1.36%	452
1998	44,100	1,366,526	36,127,000	28,890	15,927,560	20,170,550	1.48%	457
1997	43,700	1,253,680	31,604,000	436,403	15,541,258	15,626,339	1.25%	358
1996	43,400	1,174,005	34,097,000	762,596	15,311,024	18,023,380	1.54%	415

(1) 1996 thru 2000 figures based on 1990 census.

(2) Includes all long-term General Obligation bonded debt, Revenue bonds, Building Authority bonds, Downtown Development Authority bonds, Motor Vehicle Highway fund bonds, and sewer fund capitalized lease. Special Assessment bonds have been excluded.

CITY OF PORTAGE, MICHIGAN
(unaudited)
Ratio of Annual Debt Service Expenditures for
General Obligation Bonded Debt ⁽¹⁾ to Total General Expenditures
Last Ten Fiscal Years

<u>Fiscal Year Ended June 30,</u>	<u>(2) Principal</u>	<u>(2) Interest</u>	<u>(2) Total Debt Service</u>	<u>(3) Total General Expenditures</u>	<u>Ratio of Debt Service to Total General Expenditures</u>
2005	\$ 2,456,328	2,236,341	4,692,669	46,182,775	0.102
2004	1,987,857	1,849,002	3,836,859	39,189,176	0.098
2003	1,437,044	1,594,806	3,031,850	38,682,578	0.078
2002	1,412,892	1,343,601	2,756,493	40,523,811	0.068
2001	1,426,814	1,337,626	2,764,440	36,747,367	0.075
2000	1,611,398	1,109,021	2,720,419	37,948,483	0.072
1999	1,647,886	1,027,652	2,675,538	29,149,881	0.092
1998	1,632,423	996,439	2,628,862	28,651,129	0.092
1997	1,489,108	1,018,185	2,507,293	29,357,242	0.085
1996	1,712,278	1,023,255	2,735,533	28,722,214	0.095

(1) Special assessment debt with government commitment has been excluded.

(2) Prior to the fiscal year ended June 30, 1997, the Tax Increment Finance Authority and the Local Development Authority were classified as Debt Service Funds.

(3) Includes General, Special Revenue, Debt Service, Capital Projects Funds, and Expendable Trust Funds.

CITY OF PORTAGE, MICHIGAN
(unaudited)
Computation of Direct and Overlapping Bonded Debt

June 30, 2005

Name of Governmental Unit	Bonds Outstanding	Balances On Hand	Net Bonds Outstanding	Percent Applicable to City	City's Share of Debt
City of Portage:					
General Obligation Bonds	\$ 7,115,000	\$ 83,714	\$ 7,031,286		
Building Authority Bonds	14,075,000	8,195	14,066,805		
Downtown Development Authority Bonds	5,840,000	272,647	5,567,353		
Local Development Finance Authority Bonds	3,150,000	563,151	2,586,849		
Special Assessment Bonds	8,054,000	2,801,148	5,252,852		
Motor Vehicle Highway Fund Bonds	13,530,000	7,978	13,522,022		
Capital Improvement Bonds	26,375,000	-	26,375,000		
Revenue Bonds	16,155,000	-	16,155,000		
Bond Anticipation Notes	1,055,000	-	1,055,000		
Total	\$ 95,349,000	\$ 3,736,833	\$ 91,612,167	100.00%	\$ 91,612,167
Portage Public Schools ⁽¹⁾			35,168,000	88.35%	31,070,928
Vicksburg Public Schools ⁽¹⁾			19,995,000	6.60%	1,319,670
Comstock Public Schools ⁽¹⁾			10,181,000	2.73%	277,941
Schoolcraft Public Schools ⁽¹⁾			20,219,593	2.32%	469,095
Kalamazoo County ⁽¹⁾			9,500,000	25.82%	2,452,900
Total					\$ 35,590,534
Total of City's share of debt					<u>\$ 127,202,701</u>

Note:

(1) Overlapping jurisdictions outstanding and overlapping debt as of June 1, 2005

SOURCE: Finance Director

CITY OF PORTAGE, MICHIGAN

(unaudited)

Revenue Bond Coverage Last Ten Fiscal Years

Fiscal Year Ended June 30,	Gross Revenue	Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			
				Principal	Interest	Total	Coverage
2005	\$ 7,971,867	\$ 7,158,251	\$ 813,616	\$ 555,000	\$ 649,959	\$ 1,204,959	0.68
2004	7,449,935	7,636,768	(186,833)	705,000	803,282	1,508,282	(0.12)
2003	7,497,504	5,295,319	2,202,185	555,000	701,049	1,256,049	1.75
2002	7,692,879	4,389,165	3,303,714	560,000	704,730	1,264,730	2.61
2001	7,005,338	5,032,540	1,972,798	410,000	622,729	1,032,729	1.91
2000	6,516,464	4,857,139	1,659,325	380,000	482,969	862,969	1.92
1999	6,805,796	4,276,837	2,528,959	380,000	501,213	881,213	2.87
1998	6,189,090	4,244,891	1,944,199	330,000	491,150	821,150	2.37
1997	6,043,801	4,659,834	1,383,967	330,000	462,174	792,174	1.76
1996	5,920,977	4,528,235	1,392,742	250,000	294,886	544,886	2.56

CITY OF PORTAGE, MICHIGAN

(unaudited)

Demographic Statistics

Last Ten Fiscal Years

Fiscal Year Ended June 30,	Population*	(1) Median Household Income*	Median Age*	Education Level in Years of Formal Schooling*	(2) School Enrollment	(3) Unemployment Rate
2005	45,210	\$59,342	35.8	14.0	8,962	4.2%
2004	45,485	57,558	35.8	14.0	8,838	3.7%
2003	44,956	55,828	35.8	14.0	8,900	3.9%
2002	44,716	54,149	35.8	14.0	8,600	2.9%
2001	44,891	52,521	35.8	14.0	8,600	3.9%
2000	44,897	50,942	35.8	14.0	8,650	1.8%
1999	44,360	49,410	35.7	14.0	8,900	2.3%
1998	44,100	47,925	35.4	14.0	8,800	2.0%
1997	43,700	46,484	35.1	14.0	8,904	2.9%
1996	43,400	45,086	34.8	14.0	8,600	2.5%

Notes:

(1) Increases estimated at 3.1% annually

(2) Portage Public Schools

(3) Michigan Employment Security Commission

* 1996 thru 1999 figures based on 1990 census, increases estimated.

2001 thru 2004 estimates per US Census Bureau, Minor Civil Divisions

Source: Finance Director

CITY OF PORTAGE, MICHIGAN
(unaudited)
Construction, Property Value, and Bank Deposits
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Number of Permits	Construction				Property Value ⁽¹⁾				Bank Deposits (000)
		Industrial & Commercial (000)	Residential (000)	Nontaxable (000)	Total (000)	Industrial & Commercial (000)	Residential (000)	Nontaxable ⁽²⁾ (000)	Total (000)	
2005	707	\$ 51,014	\$ 50,443	\$ 3,527	\$ 104,984	\$1,131,559	\$2,166,393	\$144,094	\$3,442,046	\$754,650
2004	718	39,083	46,376	1,454	86,913	1,081,679	2,020,401	133,812	3,235,893	711,137
2003	778	33,415	52,195	3,442	89,051	1,090,614	1,893,126	128,444	3,112,184	627,594
2002	769	29,595	44,956	237	74,788	936,733	1,759,414	124,461	2,820,607	603,077
2001	678	39,405	37,353	785	77,542	825,937	1,488,356	122,602	2,436,896	511,207
2000	773	18,004	38,004	837	56,844	830,781	1,424,557	121,765	2,377,103	476,937
1999	766	15,759	36,132	2,155	54,045	796,343	1,360,527	119,611	2,276,481	440,543
1998	730	26,115	41,255	5,570	72,939	761,227	1,283,510	114,041	2,158,779	404,928
1997	682	21,957	41,377	138	63,472	733,611	1,205,117	113,904	2,052,632	384,991
1996	617	15,384	36,255	1,335	52,974	696,009	1,136,724	112,568	1,945,301	343,256

(1) Property Value is estimated by the Assessing Department; the data does not include personal property or IFT.

Source: L-4022 (SEV totals, Commercial & Industrial)

(2) Non-taxable values are estimated as follows: Prior year's value x CPI + Current Year Building Permit Value, rounded.

SOURCES: Construction - Community Development
Property values - City Assessor's Office
Bank deposits - Michigan Department of Treasury

CITY OF PORTAGE, MICHIGAN

(unaudited)

Miscellaneous Statistics

June 30, 2005

Date of incorporation - December 31, 1963

Form of government - Council/Manager

Area - 35.2125 square miles

Miles of streets 210.84

Employees (including police and fire):

Full-time 215

Part-time 24

Seasonal & other 27

Fire protection:

Number of fire stations 3

Number of employees:

Full-time 35

Part-time 1

On-Call 23

Vehicles 14

Police protection:

Number of employees

Full-time 74

Part-time 8

Seasonal 12

Vehicular units 32

Recreation:

Acres of parks 724

Number of parks 15

Education:

Number of public schools:

High schools 2

Middle schools 3

Elementary schools 8

Community Education Center 1

Public school enrollment 8962

SOURCES:

Transportation and Utilities, Parks and Recreation, Police, Fire, Community Development and Benefit Services Departments, and Portage Public Schools.



Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Governmental Auditing Standards*

Honorable Mayor and
Members of the City Council and City Manager
City of Portage
Portage, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Portage (the City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



BDO Seidman, LLP
Accountants and Consultants

We noted certain matters that we reported to management of the City in a conference memorandum dated November 8, 2005.

This report is intended solely for the information and use of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BDO Seidman, LLP

Certified Public Accountants

October 10, 2005



BDO Seidman, LLP
Accountants and Consultants

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Kalamazoo, Michigan 49007
Telephone: (269) 382-0170
Fax: (269) 345-1666

Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Honorable Mayor and
Members of the City Council and City Manager
City of Portage
Portage, Michigan

Compliance

We have audited the compliance of the City of Portage (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.



Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 10, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *OMB Circular A-133* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads 'BDO Seidman, LLP'.

Certified Public Accountants

October 10, 2005

City of Portage, Michigan

Note to Schedule of Expenditures of Federal Awards Fiscal Year Ended June 30, 2005

- 1. Basis of Presentation** The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Portage and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

City of Portage, Michigan

Schedule of Expenditures of Federal Awards Fiscal Year Ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development -		
Community Development Block Grant	14.218	\$ 423,641
Community Development Block Grant- Revolving Loan Program	14.218	110,459
U.S. Department of Justice	16.592	16,698
Corporation for National and Community Service		
Area agency on Aging provided through County of Kalamazoo		
Senior Center Staffing	93.044	12,972
Transportation	93.044	6,182
Disease Prevention/Health Promotion	93.043	9,121
Medication Managment	93.043	3,779
Total Federal Expenditures		<u>\$ 582,852</u>

City of Portage, Michigan

Summary of Auditors' Results and Schedule of Findings and Questioned Costs Fiscal Year Ended June 30, 2005

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting: Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	No (none reported)
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs: Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	No (none reported)
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 501(a) of <i>Circular A-133</i> ?	No
Identification of major programs: CFDA Number:	14.218
Name of Federal Program or Cluster:	Community Development Block Grant
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.